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Report of the
AUDITOR GENERAL
to the
Legislative Assembly

Prince Edward Island **2000**

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102-04559/

The Honourable Speaker and
Members of the Legislative Assembly
of the Province of Prince Edward Island

In accordance with the requirements of the Audit Act, I have the honour of presenting my Annual Report to the Legislative Assembly.

Respectfully submitted,

J. Wayne Murphy, FCA
Auditor General

Charlottetown
Prince Edward Island
March 7, 2000

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INTRODUCTION

MANDATE AND OBJECTIVES

Under the Audit Act, the Auditor General is required to report annually to the Legislative Assembly. Observations, recommendations and information pertaining to the audits and examinations of government operations conducted by the Office during the year are contained in this, my Annual Report 2000. Information is also provided on the status of outstanding recommendations from previous reports.

Through the work of the Office, assurance is provided that the financial statements of the Province, and those Crown corporations and agencies subject to audit are presented fairly. The Office promotes economy and efficiency in government operations and increased accountability by departments and agencies to the Legislative Assembly.

OVERVIEW

It is not possible to audit all of government each year, however I strive to obtain reasonable audit coverage on a cyclical basis. The audit work conducted this year covered financial statement audits of the Public Accounts of the Province, a number of Crown agencies, the pension funds, some trust funds and other audits. Special audits and examinations were performed which included a value-for-money audit of Holland College as well as examination of several other government programs and projects. My Annual Report 2000 deals mainly with matters pertaining to the 1998-99 fiscal year, however many of the issues identified remain current and are still being addressed by government.

As in previous years, my report includes information on the Province's Finances. The section on **Special Audits and Examinations** summarizes the results of various value-for-money audits. The **Financial Statement Audits** section provides some summary information on significant issues arising from the financial statement audits conducted by the Office during the year.

As a result of our work we provide recommendations to departments and agencies to improve management and administration of government operations and programs. Each year we contact departments and agencies to obtain follow-up information on the status of any outstanding recommendations from previous years. This information is included in a separate section of the Annual Report, **Update on Previous Recommendations.**

The **Standing Committee on Public Accounts** performs an important role in holding government accountable for its management of public resources. Information on the role of this Committee, and its proceedings during the past year, is provided in a separate section of the report.

The final section of the report on the **Office of the Auditor General** provides information on the mandate and responsibilities of the Auditor General; the operating philosophy of the Office; Office personnel, administration, and affiliations; and our objectives and accomplishments for the year.

ACKNOWLEDGEMENTS

Cooperation from Ministers, Deputy Ministers, Heads of Crown agencies, and their staff is essential to maximizing the contribution the Office makes to the improved use of public resources. The Office received full cooperation in completing the audits covered in this Annual Report. I would also like to acknowledge the assistance provided by the Legislative Audit Committee in the administration of my Office.

I am also pleased to publicly acknowledge the professionalism of my staff. Without their dedicated effort, the scope of the work presented in this report could not have been achieved.

1. THE PROVINCE'S FINANCES

OVERALL COMMENTS

1.1 Our net debt as a percent of GDP is at a more favourable level than most of the other provinces. Steady growth in the economy in recent years and the marginal decline in the net debt has halted the declining financial position the Province was experiencing. However, we still have close to a billion dollar debt situation and are very dependent on federal government transfers. It will require many years with significant surpluses to reduce our substantial debt and cut the related interest costs of over $100 million.

BACKGROUND

1.2 The Public Accounts record the Province's financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants. These financial statements are complex. It is difficult for most people to obtain a clear understanding of the Province's financial position if their review is limited to this information.

1.3 Each year I attempt to put the numbers in perspective by interpreting and summarizing the financial information to assist readers and members of the Legislative Assembly in obtaining a more complete understanding of the Province's financial condition. The government is a multimillion dollar operation and has a significant impact on the provincial economy. It is essential that members of the Legislature are provided with information to enable them to understand and debate the financial affairs of the Province.

1.4 Any discussion of the Province's finances should be based on the **Consolidated (Summary) Financial Statements** which include Crown corporations, regional health authorities, school boards, and other organizations which are part of the overall government reporting entity.

FINANCIAL MEASURES

1.5 It is useful to discuss some of the more frequently used terms associated with financial statement information. This will help in assessing the significance of the numbers presented.

1.6 The **annual surplus or deficit** is the difference between a government's revenues and expenditures. This measure shows the extent to which revenues raised in the year were sufficient to meet expenditures in that year. For the year ended March 31, 1999, the Province incurred a surplus of $28.1 million. This is a significant change from the deficit of $6.3 million in the previous year.

1.7 The **total debt** is the amount owed by the government. Government's debt includes outstanding debentures, pension obligations, and other accounts payable. The total debt of the Province as of March 31, 1999 was $1.6 billion. The Province has a sinking fund for the retirement of debentures and Canada Pension Plan loans. The balance of this Sinking Fund at March 31, 1999 was $220 million.

1.8 **Financial assets** are cash and other assets convertible to cash which could provide resources to pay liabilities or finance future operations.

1.9 The **net debt** is equal to the difference between the government's total liabilities and its financial assets. Government deficits increase the net debt and surpluses reduce it. The net debt of the Province as of March 31, 1999 was just under $1 billion.

1.10 The **interest charged on the debt** is the amount required to service the debt and must be taken from revenues before any expenditures can be made on government programs. The interest charges on the debt for the year ended March 31, 1999 were $101.4 million, a reduction of $.5 million from the previous year.

1.11 The **gross domestic product (GDP)** is a measure of the value of the goods and services produced in the Province in a year. The Province's GDP is measured and reported by Statistics Canada. The major components of the economy in PEI are agriculture, food manufacturing, construction, transportation, retail trade, government services, education, health and social services.

1.12 **Exhibit 1.1** shows a summary of some key financial measures for the Province over the past five years.

EXHIBIT 1.1
PROVINCE OF PRINCE EDWARD ISLAND
SUMMARY FINANCIAL INFORMATION
($ Millions)

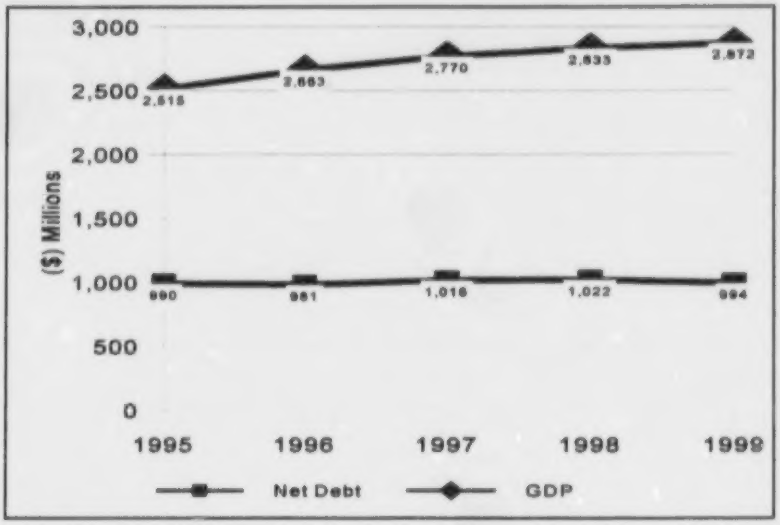
	1999	1998	1997	1996	1995
	$	$	$	$	$
Surplus (Deficit)	**28.1**	(6.3)	(11.0)	8.5	15.5
Net Debt	**993.8**	1,021.9	1,015.6	981.1	989.6
Debt Charges	**101.4**	101.9	115.5	121.1	118.2
GDP	**2,872**	2,833	2,770	2,663	2,515

1.13 Over the past few years I have reported on certain key indicators of government's finances. These have been defined in the Research Report entitled, *Indicators of Government Financial Condition* published by the Canadian Institute of Chartered Accountants. The indicators are categorized as sustainability, flexibility and vulnerability. The trends in these indicators provide information to assess the financial condition of the Province.

SUSTAINABILITY

1.14 Sustainability indicates whether the Province can maintain programs and meet existing creditor requirements without increasing the debt burden on the economy. A comparison of the government's annual surplus or deficit, net debt and the Provincial GDP provides insight into the sustainability of a government's practices of incurring expenditures and raising revenues. **Exhibit 1.2** shows the trend in the net debt and the Province's GDP since 1995.

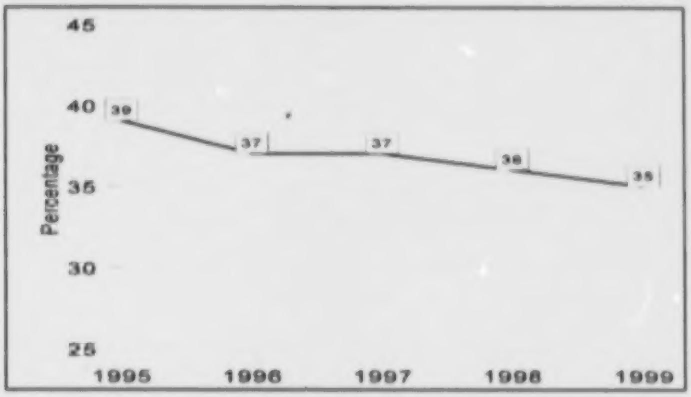
EXHIBIT 1.2
THE GOVERNMENT'S NET DEBT AND THE PROVINCE'S GDP



1.15 The GDP of the Province indicates the size of our economy. The Province's economy supports government operations through taxes and fees. Prince Edward Island has experienced steady growth in the economy in recent years. While the GDP has increased by 14 percent, the net debt returned to the 1995 level.

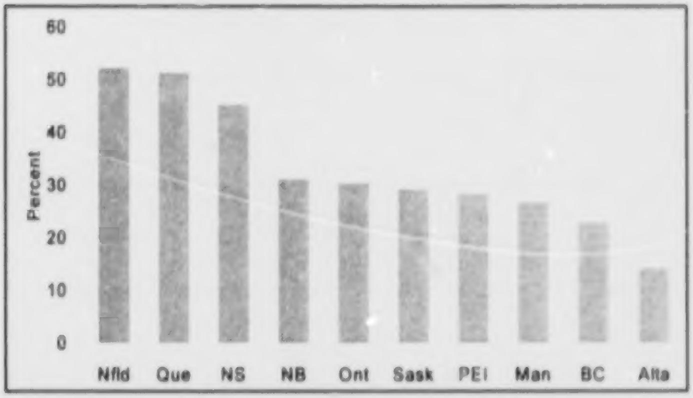
1.16 **Exhibit 1.3** compares the net debt to GDP ratios since 1995. It shows that the net debt to GDP ratio is declining which is a positive sign. It declined from a high of 39 percent in 1995 to 35 percent for the past year indicating an increased ability, since 1995, to sustain existing programs and services.

EXHIBIT 1.3
NET DEBT AS A PERCENT OF GDP



1.17 To help put this information in perspective, it is useful to compare our net debt to GDP ratio with other provinces. The Ministry of Finance and Corporate Relations for British Columbia provided the information in **Exhibit 1.4** and **Exhibit 1.5** in its *Debt Statistics* report for the fiscal year 1998-99. The information is adjusted for interprovincial comparison and is presented on a different basis than our Public Accounts. However, it does provide a reasonable basis for assessment relative to the other provinces.

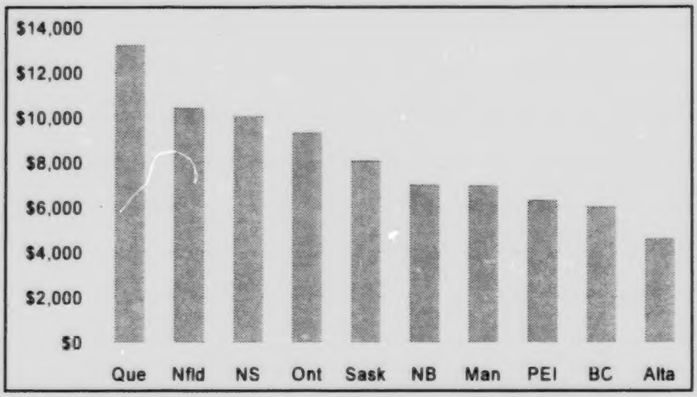
EXHIBIT 1.4
INTERPROVINCIAL-COMPARISON OF TAXPAYER SUPPORTED NET DEBT AS PERCENT OF GDP AS AT MARCH 31, 1999*



*** Source: Moody's Investors Service; Compiled August, 1999.**

1.18 Information on net debt per capita for the Canadian provinces is presented in **Exhibit 1.5**.

EXHIBIT 1.5
INTERPROVINCIAL COMPARISON OF TAXPAYER-SUPPORTED NET DEBT PER CAPITA AS AT MARCH 31, 1999*



*** Source: Moody's Investors Service; Compiled August, 1999.**

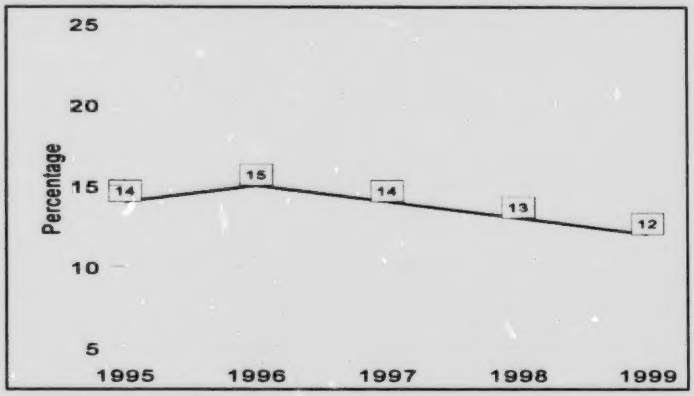
FLEXIBILITY

1.19 Government's flexibility is the degree to which it can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt.

1.20 A government's net debt and debt charges provide insight into whether it can respond to rising commitments without increasing its revenues. A rising debt burden and debt charges indicate there are fewer resources to allocate to programs and services. In the current year, the debt burden and debt charges declined slightly.

1.21 One measure of a government's flexibility is the interest costs as a percentage of total revenues. This is sometimes referred to as the "interest bite". In 1998-99, debt charges were $101.4 million. The trend in the interest bite is shown in **Exhibit 1.6**.

EXHIBIT 1.6
DEBT COSTS AS A PERCENT OF REVENUE

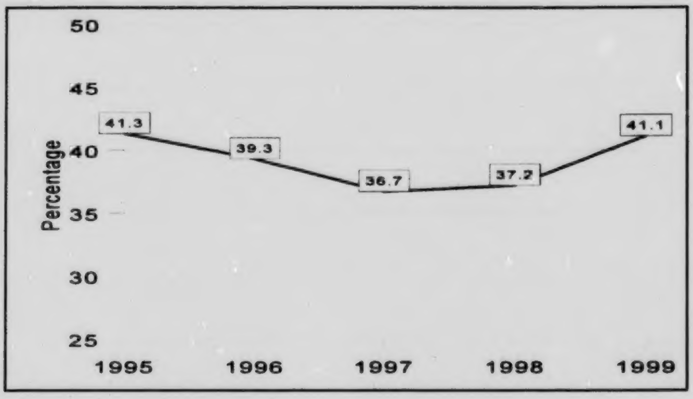


1.22 As indicated in **Exhibit 1.6**, the interest bite has declined from 15 percent in 1996 to 12 percent of total revenues in 1998-99. Therefore, an increasing proportion of revenues generated by the Province is available to pay for programs. While this is a positive trend, our net debt is approximately a billion dollars and the first $100 million raised each year still goes to the holders of our debt. To put this in perspective, the budget for the Province's seven acute care hospitals was $82 million in 1999-2000.

VULNERABILITY

1.23 Vulnerability is the degree to which a government becomes dependent on, and therefore vulnerable to sources of funding outside its control or influence. The provincial government obtains revenue from taxation and user fees and through transfers from the federal government. In 1998-99, the federal government provided approximately $360 million to the Province, an increase of $60 million from 1997-98. During the year there was a corresponding increase of $60 million in equalization payments. The trend in federal transfers relative to total revenues for the last five years is shown in **Exhibit 1.7**. This exhibit shows that approximately 41 cents of each dollar of revenue received by the Province in 1998-99 came from the federal government.

EXHIBIT 1.7
FEDERAL TRANSFERS AS A PERCENT OF REVENUE



SUMMARY

1.24 This section focuses on the main financial indicators for interpreting the Province's financial condition. We recognize there are other socio-economic factors that are relevant and taken into consideration by government and the members of the Legislative Assembly in making budgetary decisions.

SPECIAL AUDITS AND EXAMINATIONS

2. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

AUDIT PROCESS

2.1 The Auditor General may conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently and is complying with the applicable statutory provisions. Subsection 13(2) of the Audit Act establishes the mandate for the Office to conduct special audits and examinations.

2.2 Audits are conducted on a cyclical basis. It is not possible to audit all of the Province's programs each year due to the size and complexity of its operations. In determining the annual audit program many factors are considered such as the results of previous audits, financial impact, and significance to the Legislature.

2.3 Special audits and examinations are conducted in accordance with the auditing standards established by the Canadian Institute of Chartered Accountants and are conducted in a series of stages. In the planning phase information is gathered to gain an understanding of the program or entity and an audit plan is prepared. Evidence is collected and analyzed, and findings and recommendations are developed in the implementation phase. In the reporting phase a draft report is issued and discussed with the auditee. At the conclusion of the audit a final report is issued to the department or agency and a written response is requested.

2.4 For most of our audits, recommendations are developed to address the problems identified. However, we do not infringe on management's right to select the most appropriate course of action to deal with the problems identified. We are primarily concerned that the issues be satisfactorily addressed.

2.5 Section 16 of the Audit Act requires me to call attention to any matters which I consider necessary to be brought to the attention of the Legislative Assembly. This report provides information on the following special audits and examinations; Courthouse Renovations, Golf Course/Resort Development, Queens Region - Welfare Assistance, and Holland College.

3. COURTHOUSE RENOVATIONS

INTRODUCTION

3.1 The Sir Louis Henry Davies Law Courts (Law Courts) Building is located along the Charlottetown harbourside and is owned by a subsidiary of the Charlottetown Area Development Corporation (CADC). In 1979 the building was renovated and leased to the Province for 149 years. The terms of the 1979 lease required the Department of Transportation and Public Works (TPW) to make annual base rental payments of $382,000 until November 1999 and nominal annual base rental payments of $1 from then until the expiry of the lease in the year 2128. The Department of Transportation and Public Works pays the lease costs and the Department of Community Services and Attorney General administers the courthouse activities.

3.2 In February 1998 Treasury Board approved the Law Courts Building renovation project and a construction contract was awarded in July 1998. Actual project costs totalled $4.8 million although they were estimated at $4 million when the project was approved. The project was intended to address air quality deficiencies and redesign space usage for changes occurring since 1979. These included increases in staff and changes in courtroom operations. The Department of Transportation and Public Works was the project manager for the Law Courts Building renovations. The Department made payments to vendors and in turn invoiced CADC for the project costs. CADC will then recover these costs through lease payments made by TPW.

3.3 Adjacent to the Law Courts Building is the Kelly Building which was renovated by CADC in 1997 and leased to the Province to use for Provincial Court operations. The renovations to the Kelly Building were managed by CADC.

OBJECTIVES AND SCOPE

3.4 In accordance with Section 13 of the Audit Act, we assessed the management practices and controls over the Law Courts Building renovation project. In addition, we reviewed the two leases between CADC and TPW for the Law Courts Building and the Kelly Building.

3.5 We performed our examination in accordance with the auditing standards of the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OVERALL AUDIT OBSERVATIONS

3.6 The renovation costs for the Law Courts building were $4.8 million which was $830,000 more than the original budget.

3.7 The terms of reference for the Building Committee were not clearly defined which resulted in confusion over the authority to approve changes to the contract.

3.8 The consultant contract, for architectural design and construction management, was not approved by Treasury Board as required by Treasury Board policy.

3.9 A large number of changes were made between the time the contract was tendered and when it was awarded.

3.10 The change order provisions of the Capital Projects Management Policy were not always followed.

3.11 The decision to include the cost of renovations in the lease payments rather than construct and finance the renovations as capital projects will cost the Department of Transportation and Public Works in excess of $1.5 million over the next 25 years.

DETAILED AUDIT OBSERVATIONS

Law Courts Building Costs

3.12 In February 1999 Treasury Board approved a revised cost projection of $4.8 million for renovations to the Law Courts Building. This amount exceeded the original budget by $830,000. The changes from original budget to actual are included in **Exhibit 3.1**.

EXHIBIT 3.1
LAW COURTS BUILDING RENOVATIONS ESTIMATED AND ACTUAL COSTS

	ORIGINAL ESTIMATE Feb 98	REVISED ESTIMATE July 98	PROJECTED COST Feb 99	ACTUAL COST
Design	$ 300,000	$ 395,000	$ 430,000	$ 424,000
Construction contract	3,200,000	3,410,000	3,410,000	3,257,000
Contingency	200,000	280,000	575,000	709,000
Equipment & lockers	100,000	-	-	-
Digital recording system-estimate	-	-	-	97,000
Accommodations / other	175,000	340,000	390,000	318,000
Total	$3,975,000	$4,425,000	$4,805,000	$4,805,000

Project Planning

3.13 The Law Courts renovation project was a capital project which comes under the Treasury Board policy on Capital Projects Management. The policy indicates the Department of Transportation and Public Works is normally responsible for project design and implementation with input from the client department as required. The policy requires the client department to provide as much information as possible, and when TPW is satisfied sufficient information is available, it assumes primary responsibility for the project.

3.14 Transportation and Public Works staff identified the basic renovation requirements in November 1997. An architect was then asked by TPW to prepare a concept plan. The building users agreed to the concept plan and it was then used as the basis for the cost estimate and the submission to Treasury Board for project approval.

3.15 In February 1998 Treasury Board approval was obtained for the project including a $4 million budget. At this point TPW, in accordance with Treasury Board Policy, became responsible for completion of the project, on time and within budget.

3.16 A Building Committee was formed in the fall of 1997 as part of the planning process. The authority of the Committee was never clearly defined or documented. The Committee consisted of two representatives of the justices, one TPW employee, one employee of the Department of Community Services and Attorney General and the architect. There were no minutes or other documentation maintained to support decisions arising from meetings of the Building

Committee. When the architect was subsequently asked by TPW who initiated or approved some changes to the project he indicated the Building Committee or in some cases members of the Committee. According to Treasury Board Policy, TPW is required to make or approve any changes subsequent to tender approval.

Recommendations

3.17 Terms of reference including purpose, authority, and composition of planning or building committees should be clearly defined and documented before committees are established.

3.18 In accordance with Treasury Board policy, the Department of Transportation and Public Works should approve all changes to capital projects.

Consultants

3.19 The consultant firm engaged for the Law Courts project provided architectural design and construction contract management services. The contract with the consultant was not approved by Treasury Board although it exceeded $100,000. The Treasury Board policy requires approval of contracts in excess of $100,000. In February 1998 Treasury Board authorized completion of the design and tendering but specific approval of the consultant's contract was not obtained.

3.20 A competitive bidding process was not used to hire the consultant. A standard contract was signed with the consultant for basic design services totalling $329,000. The fee amount was based on the Architects Association of PEI schedule of minimum charges.

Recommendation

3.21 Transportation and Public Works should obtain the required Treasury Board approval prior to engaging consultants.

Contract Management

Tendering

3.22 Public tenders were called for project construction which was scheduled to begin August 1, 1998. A total of 122 items were changed during the design phase between the time the tender was called and when it was awarded. The final date for tender submission had to be extended to allow the bidders extra time to view the

Committee. When the architect was subsequently asked by TPW who initiated or approved some changes to the project he indicated the Building Committee or in some cases members of the Committee. According to Treasury Board Policy, TPW is required to make or approve any changes subsequent to tender approval.

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Contract Management

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Change Orders

3.23 Change orders are used to document and authorize changes to the original contract specifications after the tender has been awarded. The cost of adding items to the construction contract through the change order process is normally more expensive because there is no competitive bidding process. A summary of the change orders is shown in **Exhibit 3.2**.

EXHIBIT 3.2
LAW COURTS RENOVATION PROJECT SUMMARY OF CHANGE ORDERS

Structural	$216,000
Mechanical/Plumbing	153,000
Electrical	110,000
Finish Work	88,000
Security	71,000
Other	71,000
Total Change Orders	$709,000

3.24 The Capital Projects Management policy requires TPW to ensure a complete file is maintained including financial records, change documentation, and other information required to provide an acceptable audit trail and meet management needs. Minor changes are provided for by way of a contingency allowance which is approved as a separate budget item.

3.25 Requests for changes to a construction project are to be issued by the consultant, approved by TPW, and then summarized into a change order before the work is performed. The change order is approved by TPW, the consultant and general contractor. Ten change orders which included approximately 280 separate items were approved for the Law Courts Building. These change orders totalled $709,000 and represent approximately 20 percent of construction costs.

3.26 We found the process for controlling change orders did not always comply with Treasury Board's policy. The Department of Transportation and Public Works did not approve many of the changes until after they were summarized into a change order. This process did not allow TPW staff to assess the cost and need for a change before the change was implemented.

3.27 By November 1998 approximately $500,000 or 70 percent of the final change order cost was incurred although only $235,000 in change orders had been formally approved by TPW. At this point TPW could not reduce change order costs because much of the work was already completed.

Recommendations

3.28 Transportation and Public Works should ensure that projects are clearly defined before they are tendered.

3.29 Transportation and Public Works should ensure that the change order provisions of the Treasury Board Policy are followed including approval of change orders and pricing prior to commencement of the work.

Lease Financing

3.30 Transportation and Public Works entered into two lease agreements which will result in payments totalling $20 million over the next 25 years. The lease payments cover both operating and renovation costs of the Kelly and Law Courts Buildings. Both leases are with the building owner, CADC, who obtained loan financing from the Department of Provincial Treasury. These financing arrangements are complex and result in additional costs to the Province compared to TPW paying the renovation costs as a capital expenditure for leasehold improvements. We were advised by TPW staff that the objective of entering into these leases was to defer renovation costs to future accounting periods. The additional costs to the Province over the 25 years will be between $1.5 million and $2 million.

Law Courts Building Lease

3.31 In November 1998 an amendment was made to the Law Courts lease with CADC. Under this amendment TPW agreed to the following:

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Law Courts Building Lease

3.31 In November 1998 an amendment was made to the Law Courts lease with CADC. Under this amendment TPW agreed to the following:

- To undertake renovations to the Law Courts Building estimated to cost $4.425 million;
- A lease with CADC which provided for the amortization of these renovations over 20 years at an estimated rate of 7 percent;
- Adjustments to the least payment for actual renovation costs and interest rate;
- Administration fees based on 4 percent of the annual base rental to be included in lease payment and paid over 20 years;
- Administration fees based on 15 percent of operating costs to be paid for the remaining 129 years from November 1999; and
- CADC would continue to be reimbursed for actual operating costs which are estimated to be $200,000 per year.

3.32 In April 1999 Provincial Treasury advanced $4.1 million to CADC being the first of two scheduled loan installments The loan terms include an interest rate of 6.64 percent over 20 years. Final renovation costs are estimated by TPW to be $4.8 million which means that payments will be $440,000 for base rent, plus $48,000 annually for both the 4 percent and 15 percent administration fees.

3.33 As a result of financing the renovation costs through a lease with CADC, rather than constructing and financing it as a capital project, TPW will pay the following additional administration costs.

	Annual	Total
Administration fees on base annual rent - 4 percent	$18,000	
Administration fees on operating costs - 15 percent	30,000	
	48,000	
Total over first 20 years		$ 960,000
Plus 5 years administration fees on operating costs	30,000	150,000
Less existing fees - 1.25 percent	5,000	(50,000)
Total first 25 years		$1,060,000

3.34 The lease amendment increased the administration fees from 1.25 percent to 4 percent on the base rent portion, and added a 15 percent fee on operating costs. Operating costs are expenses paid by CADC but recovered from TPW. During 1999 these included common area costs of $60,000 and property taxes of $140,000. We noted the amendment includes higher administration fees than what was proposed by CADC in January 1998. The amendment includes both a 4 percent fee on amortized renovation costs and a 15 percent fee on operating costs. However, the proposal was based on selecting one of these two fee options. Staff of TPW could not explain the reason for including both fees.

Kelly Building Lease

3.35 To provide space for additional court facilities, TPW also entered into a lease agreement with CADC for the Kelly Building. In May 1997 Treasury Board approved the following:

- Transportation and Public Works to enter into a 27.4 year lease with CADC for the Kelly Building;
- All payments from June 1997 would be deferred and included as part of the new lease beginning in November 1999;
- The annual rent for the first 15 years including operating costs, management fees, parking and renovation costs was not to exceed $278,100;
- In the final 10 years of the lease, costs are to be limited to actual operating costs; and
- Provincial Treasury to provide a loan to CADC up to a maximum of $800,000 for the Kelly Building renovations.

3.36 In June 1997 the Deputy Minister of TPW issued a letter of intent to CADC referring to maximum annual payments of $278,100. CADC issued tenders and performed the renovations during the fall of 1997. The Courthouse staff moved into the Kelly building early in 1998. Actual renovation costs were $860,000, however, no adjustment was made in the lease rate because the agreed upon contribution by the Province was based on a maximum of $800,000. The lease was signed by TPW in July 1998. It included a $278,100 annual payment over the first fifteen years and $90,336 per year for the last 10 years.

3.37 CADC financed $800,000 of the renovation costs with a loan from Provincial Treasury at 6.13 percent, however, the interest rate used in the lease was 8.5 percent. This rate difference results in a cash benefit to CADC of $34,000 annually which totals $510,000 over the 15 year loan repayment period. The total administration fees paid by TPW over 25 years will amount to $587,500.

M121

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3.38 The renovations to these two buildings were leasehold improvements and should have been financed and recorded as capital projects in accordance with the Treasury Board policy on Capital Projects. Instead, the cost of these renovations plus operating and administration costs were included in two operating lease agreements with CADC. The result is additional costs to the Province and additional revenues to CADC through lease payments over a period of approximately 25 years.

Recommendations

3.39 The costs of entering into complex lease arrangements should be fully evaluated to ensure they are economical for the Province.

3.40 Transportation and Public Works should determine the reason administration fees are higher than the proposal for the Law Courts lease and ensure appropriate corrections are made.

SUMMARY

3.41 As a result of both leases, additional costs estimated at between \$1.5 million and \$2 million will be paid over the next 25 years, which TPW would not have incurred if the capital projects had been financed directly by the Province. These amounts include approximately \$1 million in administration fees for the Law Courts Building lease; \$.5 million due to the difference in the interest rate on the renovation loan to CADC and the interest rate used in the lease for the Kelly Building; and up to \$.5 million in administration fees included in the Kelly Building lease.

3.42 Our concerns on the related accounting treatment for these transactions are noted in the Public Accounts section of this report.

MANAGEMENT RESPONSE

3.43 We discussed our report with management and they agreed with the points raised.

3.38 The renovations to these two buildings were leasehold improvements and should have been financed and recorded as capital projects in accordance with the Treasury Board policy on Capital Projects. Instead, the cost of these renovations plus operating and administration costs were included in two operating lease agreements with CADC. The result is additional costs to the Province and additional revenues to CADC through lease payments over a period of approximately 25 years.

Recommendations

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3.40 Transportation and Public Works should determine the reason administration fees are higher than the proposal for the Law Courts lease and ensure appropriate corrections are made.

SUMMARY

3.41 As a result of both leases, additional costs estimated at between $1.5 million and $2 million will be paid over the next 25 years, which TPW would not have incurred if the capital projects had been financed directly by the Province. These amounts include approximately $1 million in administration fees for the Law Courts Building lease; $.5 million due to the difference in the interest rate on the renovation loan to CADC and the interest rate used in the lease for the Kelly Building; and up to $.5 million in administration fees included in the Kelly Building lease.

3.42 Our concerns on the related accounting treatment for these transactions are noted in the Public Accounts section of this report.

MANAGEMENT RESPONSE

3.43 We discussed our report with management and they agreed with the points raised.

4. GOLF COURSE/RESORT DEVELOPMENT

INTRODUCTION

4.1 On January 31, 1998 the Province signed a Development Agreement with a private sector company to convey lands for the construction of a championship caliber golf course. The lands were subsequently conveyed to another private sector company, Brudenell II Inc. The Province transferred to the developer 421 acres of land with an assessed value of $375,500. The fair market value of the land at the time of the transfer was not determined.

4.2 The Province also signed an Operations/Management Agreement with Brudenell II Inc. on January 31, 1998, to lease the golf course being constructed at Brudenell. The golf course became known as Dundarave. The annual lease payments are $635,000 to be paid in four installments of $158,750. The agreement is in effect from January 1, 1998 to December 31, 2008. The first installments were paid between July and October 1999.

4.3 The Operations/Management Agreement provides for the Province to operate, manage and maintain the golf course and retain the revenues collected. Revenues include green fees, pro shop sales, and rentals of golf carts and clubs. The Province is responsible for the expenses related to maintaining the golf course to a level appropriate to a PGA championship caliber golf course. Operating expenses include; taxes, utilities, insurance, waste removal, promotion, and repairs and maintenance. The owner, Brudenell II Inc., is responsible for the payment of debt incurred to finance the construction of the golf course.

OBJECTIVE AND SCOPE

4.4 Our objective was to review and assess the documentation pertaining to the decision to lease the golf course. We reviewed the agreements related to the development, operation and maintenance of the Dundarave golf course. We also reviewed documentation related to improvements to the infrastructure of Brudenell Resort. We conducted interviews, reviewed related documentation and analyzed financial information.

OVERALL OBSERVATIONS

4.5 The addition of a second golf course at Brudenell was supported by a golf course demand analysis and an economic impact analysis. A decision was made by government to enter into an agreement with a developer to lease a golf course with lease payments totalling $6.35 million over ten years. In addition, government transferred to the developer, without charge, 421 acres of land assessed at $375,500. The agreement also provided for options at the end of the lease term, including an option to purchase the course at fair market value. The documentation provided to substantiate the decision to lease rather than construct the golf course was insufficient for us to conclude whether this was the most economical alternative for the Province. Several pieces of information crucial to an assessment of the decision are not known: the fair market value of the course at the end of the lease; whether or not government will exercise its option to purchase the course; and cost proposals to construct a comparable golf course. There are many factors which can have an impact on the fair market value of the course at the end of the lease and the decision on whether to purchase; for example, the financial viability of the course at that time, and the future prospects in terms of demand for golf facilities beyond 2008.

4.6 To come to a conclusion on whether the Province made the most economical decision it would be necessary to compare the cost to government under the leasing alternative chosen, to the option of constructing and financing the golf course on its own. As indicated, essential information to perform a complete analysis is not available. However, management concluded from its own analysis, that if the market value of the golf course at the end of the lease exceeds $4.7 million, it would have been more economical to construct the golf course. The agreement did not include an upper limit on the purchase price, under the option to purchase.

DETAILED OBSERVATIONS

Background

4.7 Interest in developing the Brudenell Park goes back as far as October 1994 when the Minister of Economic Development and Tourism invited expressions of interest from the private sector. In February 1996 a proposal was received including a business plan for a new golf course. Under this proposal the Province would have provided land and leased the existing golf course and the developer would construct a new course. This proposal was rejected in March 1996. Subsequent to this date there were no requests for proposals issued to the private sector for golf course development at Brudenell.

Decision-Making Process

4.8 We were advised that a documented proposal was not provided by the developer for the new golf course at Brudenell. Following is the series of events leading to the development and lease of the Dundarave golf course:

- In December 1997 Executive Council gave permission to the developer to acquire land holdings in Brudenell from Enterprise PEI and in June 1998, 420.81 acres were transferred.
- In January 1998 a Development Agreement was signed by the Minister of Transportation and Public Works with the developer for the transfer of land.
- In January 1998 an Operations/Management Agreement was signed by the Minister of Economic Development and Tourism with the developer, which provided for the Province to operate and manage the golf course for a lease cost of $635,000 per year. The lease term is 11 years while lease payments are for 10 years after the course is constructed. The agreement also provided options, including an option to purchase the course at fair market value at the end of the lease. The lease agreement did not stipulate an upper limit on the purchase price.
- In February 1998 the Deputy Provincial Treasurer provided an "Analysis of Impact of Second Golf Course at Brudenell". This analysis indicated that a golf course developed to championship standards would cost $6 million to $8 million. To finance a $7 million golf development over 20 years would cost $646,200 based on a 7 percent loan. The balance outstanding at the end of 10 years would be $4.7 million. The analysis concluded that if the proposed golf course has a market value exceeding $4.7 million at the end of a 10 year lease, it would be more economical to construct rather than to lease the golf course. The analysis also projected that $1.2 million in net revenue could be realized over the 10 year period with either the lease or construction option.
- On July 16, 1999 the Province, through Golf Links PEI, commenced operation of the golf course after a two week delay. The opening date was delayed because the golf course consultant determined the course was not ready for play.

Lease Decision

4.9 In the past the Province constructed the Brudenell I and Mill River golf courses. The Links at Crowbush Cove was constructed by the Lakeside Development Corporation and transferred to the Province. The cost of the Links at Crowbush Cove was $5.4 million excluding clubhouse, equipment, infrastructure and financing costs.

4.10 The analysis prepared by the Deputy Provincial Treasurer determined the annual cost if the Province constructed a $7 million golf course and financed it over 20 years. To perform a complete analysis, including a comparison to the alternative of leasing, several key pieces of information would be required which are not known and cannot be predicted with sufficient accuracy. These include: the fair market value of the course at the end of the lease, which will depend on the golf market for championship caliber golf courses; whether or not government will exercise its option to purchase the course; and cost proposals for the Province to construct a comparable golf course.

4.11 Based on the lease expense of $635,000 per year for Dundarave and the Province's cost of borrowing at that time, the Province could have spent up to $4.6 million for the construction of a golf course that it would own after 10 years. The equivalent capital contribution for 20 years would finance a $7 million golf course.

4.12 The Deputy Minister of Fisheries and Tourism indicated the Province leased rather than constructed the golf course because there was a documented need for more championship caliber golf courses and government did not want to incur additional debt to pay for the construction. The impact on the debt is one factor to consider, however, the least costly alternative in the long term should be the main consideration.

Alternatives at End of Lease Term

4.13 Under the lease agreement three alternatives available to the Province at the end of the ten year lease term include:

- The Province can terminate the lease after ten years and will have had the benefit of operating a championship caliber golf course over that period. The cost over ten years is $6.35 million in lease payments plus the value of the land transferred to the developer which was assessed at $375,500 at the time of transfer.
- The Province can purchase the golf course at the expiration of the agreement, as a going concern, at its fair market value. This price will be reduced by the value of the land contributed to the project

by the Province, the cost of any capital additions, and the penalty for the delay in opening. The option to purchase is for the actual golf course and not the entire lands transferred so it does not include the land peripheral to the fairways.

- The Province can enter into negotiations to extend the lease agreement.

4.14 The Deputy Minister of Fisheries and Tourism indicated that the Department has not determined if it intends to acquire the golf course at the end of the lease. The option was included in the Operations/Management Agreement to ensure that option would be available. The cost to purchase the golf course at the end of the lease term would be based on the fair market value of the course at that time. If purchased, the lease payments already paid would not be applied against the purchase price.

Forecast Operating Results

4.15 Golf Links PEI, a subsidiary of the Crown corporation Tourism PEI, is responsible for the cost of operating Dundarave. The forecast cost to operate the course in 1999 was $1.152 million which included the $635,000 annual lease payment. It also included the direct staff and materials to maintain the golf course. To offset this amount the golf course generated $637,000 in revenues so the net result for the year ended March 31, 2000 is a projected loss of approximately $500,000.

4.16 The operating results should improve this year because the course will operate for a full season. In 1999 it operated from July 16, no memberships were sold, and the number of golfers was limited to 150 per day.

Delay in Opening

4.17 The golf course was scheduled to open July 1, 1999. The Province had the right to inspect the golf course upon its completion. The Province exercised this right, and as a result of an inspection the opening of the course was delayed until July 16, when the golf course consultant indicated it was ready for play. The developer continues to be responsible for construction deficiencies in the initial 12 months of operation. Deficiencies of a maintenance nature are the responsibility of the Province.

4.18 The golf course consultant provided a list of deficiencies as of November 1999. The expectation is that the deficiencies will be corrected by June 15, 2000 at the developer's expense.

4.19 The agreement indicated that in the event the golf course is not ready to play on July 1, 1999, the purchase price or first installment payable on a renewal agreement would be adjusted. Based on the formula in the agreement, the amount of the adjustment would be $56,400. The Province will not receive this benefit for 10 years, and then only on the renewal of the lease or the purchase of the golf course.

Academy

4.20 The Development Agreement also included construction of a Golf Academy by the developer on part of the lands transferred. The Academy, which is operated by the developer, opened in the summer of 1999. The Province provided golf course maintenance personnel and equipment, invoiced at $20,000, to maintain the Academy with its nine hole executive course. This invoice was based on the actual materials used and an estimate of the time spent by maintenance personnel. There was no documented agreement in place at the time of our review dealing with the recovery of maintenance expenditures. The Deputy Minister indicated an informal agreement was in place to invoice the Academy on a cost recovery basis.

Brudenell Resort Upgrading

4.21 In addition to the lease of the new golf course the Province made improvements to the infrastructure and facilities of the Brudenell Resort. The cost of improvements incurred by the Province at the Brudenell Resort were approximately $5.6 million from April 1998 to December 1999. The Province is in the process of applying for federal grants, under the Regional Economic Development Agreement, for this project. These improvements were of benefit to the resort as a whole. The maintenance building and roadways will provide a direct benefit to both golf courses. A summary of the expenditures is included in **Exhibit 4.1**.

EXHIBIT 4.1
RESORT UPGRADING COST SUMMARY
APRIL 1998 - DECEMBER 1999

General Infrastructure (see Exhibit 4.2)	$2,321,100
Design	359,800
Project Management	291,300
Site Preparation	104,000
Maintenance Building	953,300
Parks Facility	918,700
Treatment plant	640,900
Printing/Surveys	23,400
Total Infrastructure	$5,612,500

4.22 The general infrastructure expenditures can be further broken down as indicated in **Exhibit 4.2**.

EXHIBIT 4.2
GENERAL INFRASTRUCTURE COSTS
APRIL 1998 - DECEMBER 1999

Power & Utility Supply Systems	$ 804,300
Roadways and Parking	591,500
Sewer and Water	565,900
Landscaping	119,300
Signage	93,400
Pedestrian Pathways	73,900
Tennis Courts	41,900
Other	30,900
Total Contract	$2,321,100

Pro Shop

4.23 In addition to the infrastructure expenditures, there is an agreement for the Government to lease a pro shop and storage facility from River Resorts Inc. The Province agreed that Island Fund V would lend $1,470,000 to River Resorts Inc., to finance a convention centre, golf cart storage facility, and pro shop. Costs were projected at $1.8 million. The authority to enter into an agreement was approved by Executive Council in February 2000. The lease is for five years ending August 31, 2004 with an annual base rent of $101,808. The Province has the option of renewing the lease or purchasing 50 percent of the project after five years. Since the agreement was just approved at the time of writing this report, we did not do any analysis on this project.

Public/Private Partnering Guidelines

4.24 The Dundarave Golf Course is an example of a Public/Private Partnering (P3) arrangement. Our 1998 Annual Report discussed the implications of, and made recommendations for, these types of projects. The Department of the Provincial Treasury prepared a report entitled, *Public/Private Partnering: Status Report and Policy Matters* which addressed most of our recommendations. The Department of the Provincial Treasury advised that this would be used as a guide for any public/private partnership projects the Province decides to explore.

4.25 Among other issues, the guidelines recommended the formation of a P3 Project Coordinating Committee and a Project Working Group. According to the Deputy Minister of Fisheries and Tourism the guiding principles developed by Provincial Treasury for P3 capital projects were not referred to for the construction of Dundarave because they were issued after the project was approved. The guiding principles include consideration of a number of factors that are relevant for a project of this nature.

Recommendations

4.26 Lease arrangements entered into by the Province, which include an option to purchase, should have an upper limit for the purchase price stipulated in the lease agreement.

4.27 Golf Links PEI should formalize its arrangements with the Brudenell Golf Academy for the recovery of maintenance costs.

4.28 Development projects, such as Dundarave, should use the Provincial Treasury *Public/Private Partnering: Status Report and Policy Matters* as a guide when assessing, approving and implementing projects. These guidelines require consideration of the following:

- **best cost (value-for-money) solution for meeting public policy objective;**
- **open, competitive and equal opportunity bidding, and evaluation and selection process;**
- **significant risk transfer to the private sector;**
- **utilization of alternative revenue sources where possible;**
- **enhanced economic development opportunities;**

- **meet the public accountability test;**
- **equal or improved service quality;**
- **fair consideration of public sector employees and collective agreements; and**
- **adherence to government's accounting and fiscal policies.**

MANAGEMENT RESPONSE

4.29 We discussed our report with management and they agreed with the issues raised.

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- **meet the public accountability test;**
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- **fair consideration of public sector employees and collective agreements; and**
- **adherence to government's accounting and fiscal policies.**

MANAGEMENT RESPONSE

4.29 We discussed our report with management and they agreed with the issues raised.

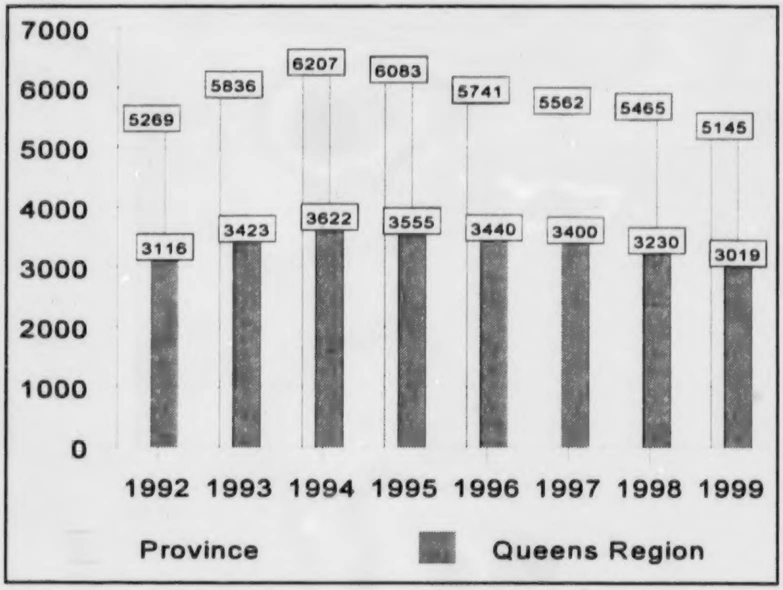
5. QUEENS REGION - WELFARE ASSISTANCE

INTRODUCTION

5.1 The Income Support, Employment Enhancement and Job Creation Division of Queens Region Health and Community Services delivers Welfare Assistance and other related programs to clients resident in Queens Region. Welfare assistance payments in the Region have declined from $26.7 million in 1995 to $21.7 million in 1999. During the same period Employment Enhancement and Job Creation program expenditures have increased from $ .9 million to $1.8 million, and day care subsidies have increased from $1 million to $1.6 million.

5.2 Examination of average monthly caseloads for the Queens Region indicates that the Region's caseload makes up about 60 percent of the Province's welfare assistance caseload. **Exhibit 5.1** shows caseload data for the Queens Region and the Province as a whole for the years 1992-1999.

EXHIBIT 5.1
QUEENS REGION/PROVINCE AVERAGE CASELOADS



5.3 There are a variety of factors which may impact caseload levels in the Province's financial assistance program. These include changes in the number and types of jobs available, as well as changes in the extent to which other programs such as Employment Insurance, and Old Age Security provide adequate levels of income to individual recipients.

OBJECTIVE AND SCOPE

5.4 In accordance with Section 13 of the Audit Act we examined programs delivered by the Income Support, Employment Enhancement and Job Creation Division of Queens Region Health and Community Services. Our objective was to determine if service is provided in accordance with legislative requirements and established objectives and policies, and to assess management practices for program administration.

5.5 Our work focused on several types of expenditures which together represent what is commonly considered as financial assistance. These expenditures include cash benefits paid to clients or to others on their behalf, medical, dental and optical costs, special needs, and funeral costs. In addition, we examined day care subsidization and employment enhancement and job creation programs. We directed our examination to transactions in the 1998-99 fiscal year.

5.6 Our examination was performed in accordance with the auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OVERALL AUDIT OBSERVATIONS

5.7 In 1997 new program directions for welfare assistance were established which focus on employability and coordination of activities with Human Resources Development Canada. The Region has experienced a decline in caseloads and a decline in welfare expenditures from $26.7 million in 1995 to $21.7 million in 1999. During the same period expenditures for the Job Creation Program increased from $.9 million to $1.8 million while expenditures for daycare subsidies increased from $1 million to $1.6 million.

5.8 We continue to note problems in the management of service delivery in a number of areas including case planning, file documentation standards, supervisory review and signing authorities.

DETAILED AUDIT OBSERVATIONS

Program Objectives

5.9 In June 1997, the Department developed new program directions for Welfare Assistance which focus on improving client employment prospects by streamlining the intake process to provide referrals to Employment Enhancement and Job Creation Programs on a more timely basis. The new program directions also place renewed emphasis on beneficiary responsibilities regarding employment, and coordination of activities with Human Resources Development Canada.

5.10 The objectives of the Welfare Assistance Program are set out in the Department's policy manual as follows:

- The Welfare Assistance Program shall provide the basic necessities of living to those who for physical, mental, social, or other reasons are unable to provide for their own basic needs.
- The Program shall provide timely and appropriate services to prevent social dependency or the perpetuation of dependency.
- The Program will strive to restore disabled or distressed individuals or families to normal social functioning to the extent possible.

5.11 The Region has directed its efforts toward achieving each of the three objectives of the Welfare Assistance Program. Management receives numerous system reports related to caseloads, payments, and budget amounts which support the objective of meeting basic needs. However, it is much more difficult to measure results against preventing social dependency or restoring individuals or families to normal social functioning. Although some information is available improvements could be made in the extent and type of information available to management in relation to these objectives.

Signing Authority

5.12 Restrictions on signing authority serve to control expenditures by limiting the number of individuals who are making expenditure decisions, and by ensuring that senior personnel review transactions that are non-routine in terms of the dollar values involved or the nature of the expenditure. We noted a number of areas relating to signing authority where accountability and control could be improved.

5.13 Based on the various sections of the Welfare Assistance Act, the Health and Community Services Act and the Interpretation Act, the Deputy Minister may delegate the power to grant signing authority to others within the Department or Region.

5.14 During the period covered by our audit, the Director of Income Support for Queens Region approved the signing authorities. However, authorization for the Director of Income Support to delegate signing authority could not be provided by the Region.

5.15 A contradiction exists between the Regulations to the Welfare Assistance Act and the Welfare Assistance policy manual. Regulation 19(1) to the Welfare Assistance Act requires special needs exceeding $1,000/year to be authorized by the Deputy Minister. However, the policy manual provides for special needs expenditures to be under the general control of the regional authority and provides that designated staff may authorize continuing special needs expenditures up to $5,000/month and non-continuing special needs up to $5,000/year. Amounts over $5,000 are to be authorized by the regional CEO and designated staff.

5.16 In March 1998 the Department conducted a review of the Regulations and a number of required changes were identified to better reflect current policies and practices. However, the Regulations have not yet been changed and signing authority practices continue that are contrary to the Regulations.

5.17 When we examined the Region's schedules of various signing authorities we noted that individuals were included who were on secondment elsewhere and a number of employees were included who no longer had responsibility for provision of financial assistance. Failure to update signing authority schedules when employees are no longer working in the program, or do not currently require signing authorization to carry out job duties, represents an unnecessary increase in risk.

5.18 Due to the nature and volume of activity in Income Support Programs it is necessary for individual case workers to have signing authority. However, we noted that the signing authority levels for cash and material benefits are substantial with caseworkers having signing authority up to $3,000 per document, managers up to $10,000, and directors up to $100,000.

5.19 An analysis of the various signing authority levels along with a review of the number and dollar value of various payments approved by different staff levels is needed. Such an analysis would help management establish a reasonable level of signing authority designed to reduce risk without reducing operational efficiency.

Recommendations

5.20 In accordance with the Welfare Assistance Act Regulations, approval to delegate signing authority should be provided in writing from the Minister or Deputy Minister to the Director of Income Support.

5.21 Signing authority for special needs expenditures should follow the limits indicated in the Welfare Assistance Act Regulations.

5.22 Signing authorities should be updated to reflect staffing changes.

5.23 Management should examine the current signing authority levels along with a review of the number and dollar value of various payments to determine if there is an appropriate level of supervisory review over financial assistance payments.

Assistance Rates

5.24 Staff use standard rates specified in the Regulations for food, clothing, household, and personal expenditure amounts in the calculation of financial assistance entitlement. The Welfare Assistance Act Regulations require the Lieutenant Governor in Council to review the rates of assistance on an annual basis to determine their adequacy in meeting basic needs or special needs of applicants or beneficiaries. In previous audits we have observed that this requirement was not followed and recommended that the rates be reviewed as stated in the Regulations. We confirmed with Executive Council staff that submissions concerning rates of assistance had not gone forward to Executive Council in at least the past two fiscal years. In fact the current rates had not changed since 1992. Subsequent to our report being issued, government has doubled the school allowance and increased the monthly allowance for food effective January 1, 2000.

Recommendation

5.25 Each year the Department should submit the information necessary for the Lieutenant Governor in Council to review the rates of assistance to determine their adequacy as required by the Regulations to the Welfare Assistance Act.

Employment Enhancement and Job Creation Program

5.26 The focus of the Program is to provide short-term employment that will allow clients to qualify for employment insurance and for training programs available through Human Resource Development Canada. Offices for the Employment Enhancement and Job Creation Program are located close to Human Resource Development Canada allowing Employment Enhancement and Job Creation staff to make use of resources of the federal program and assist in coordinating efforts between the two programs. The Employment Enhancement and Job Creation Programs also provide clients with training in job search skills such as résumé writing, and provide assistance to people with disabilities in overcoming employment barriers.

5.27 The Job Creation Program offers a wage subsidy to private and non-profit employers and also provides job placements with government groups. The placement period may vary depending primarily on work periods required for employment insurance programs and employment availability.

5.28 Data received from the Employment Enhancement and Job Creation Program for the year under review indicates 459 clients were placed in jobs averaging 9.6 weeks of subsidy. Our review of Job Creation Program data for the 1999 fiscal year indicates that non-profit organizations account for 51 percent of the subsidized employment hours while the private sector accounts for 35 percent and government placements 14 percent.

5.18 Due to the nature and volume of activity in Income Support Programs it is necessary for individual case workers to have signing authority. However, we noted that the signing authority levels for cash and material benefits are substantial with caseworkers having signing authority up to $3,000 per document, managers up to $10,000, and directors up to $100,000.

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5.23 Management should examine the current signing authority levels along with a review of the number and dollar value of various payments to determine if there is an appropriate level of supervisory review over financial assistance payments.

Assistance Rates

5.24 Staff use standard rates specified in the Regulations for food, clothing, household, and personal expenditure amounts in the calculation of financial assistance entitlement. The Welfare Assistance Act Regulations require the Lieutenant Governor in Council to review the rates of assistance on an annual basis to determine their adequacy in meeting basic needs or special needs of applicants or beneficiaries. In previous audits we have observed that this requirement was not followed and recommended that the rates be reviewed as stated in the Regulations. We confirmed with Executive Council staff that submissions concerning rates of assistance had not gone forward to Executive Council in at least the past two fiscal years. In fact the current rates had not changed since 1992. Subsequent to our report being issued, government has doubled the school allowance and increased the monthly allowance for food effective January 1, 2000.

Recommendation

5.25 Each year the Department should submit the information necessary for the Lieutenant Governor in Council to review the rates of assistance to determine their adequacy as required by the Regulations to the Welfare Assistance Act.

Employment Enhancement and Job Creation Program

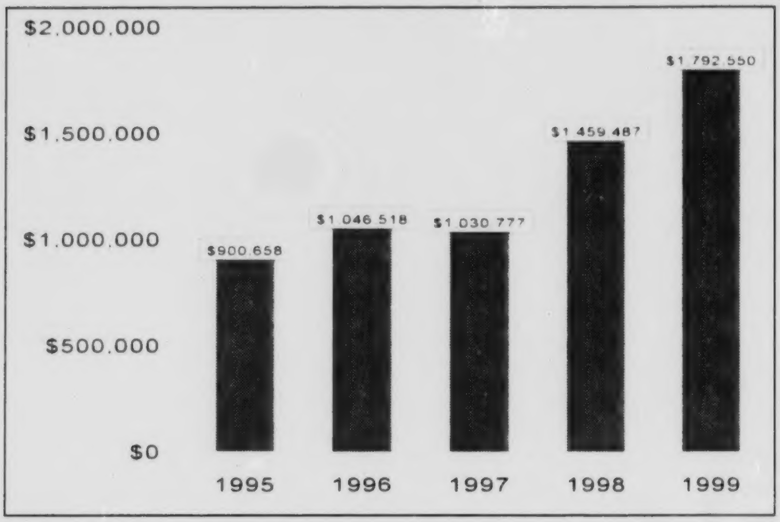
5.26 The focus of the Program is to provide short-term employment that will allow clients to qualify for employment insurance and for training programs available through Human Resource Development Canada. Offices for the Employment Enhancement and Job Creation Program are located close to Human Resource Development Canada allowing Employment Enhancement and Job Creation staff to make use of resources of the federal program and assist in coordinating efforts between the two programs. The Employment Enhancement and Job Creation Programs also provide clients with training in job search skills such as résumé writing, and provide assistance to people with disabilities in overcoming employment barriers.

5.27 The Job Creation Program offers a wage subsidy to private and non-profit employers and also provides job placements with government groups. The placement period may vary depending primarily on work periods required for employment insurance programs and employment availability.

5.28 Data received from the Employment Enhancement and Job Creation Program for the year under review indicates 459 clients were placed in jobs averaging 9.6 weeks of subsidy. Our review of Job Creation Program data for the 1999 fiscal year indicates that non-profit organizations account for 51 percent of the subsidized employment hours while the private sector accounts for 35 percent and government placements 14 percent.

5.29 **Exhibit 5.2** shows expenditures of the Employment Enhancement and Job Creation program from 1995 to 1999.

EXHIBIT 5.2
EMPLOYMENT ENHANCEMENT/JOB CREATION PROGRAM COSTS



5.30 Although some short-term assessments have been carried out, an in-depth analysis of the impact of employment enhancement and job creation activities on the Welfare Assistance Program has not been performed. There is limited information available concerning the long-term results of the program.

Recommendation

5.31 Management should obtain information concerning job placements, returns to welfare assistance, and cost comparisons of various alternatives to determine the impact of job creation and employment enhancement activities on the Welfare Assistance Program.

Overpayments

5.32 Overpayments result from unreported, incomplete or misleading information, changes in circumstances which are determined or processed subsequent to cheques being issued to clients, or caseworker error. In addition, advances may be approved by the Region with recovery arrangements set up or credit vouchers may be issued to allow clients to purchase groceries or to meet other urgent needs.

5.33 In previous audits we commented that overpayments were not well managed. In this year's audit we observed improvements in procedures developed to prevent and detect overpayments. These improvements have resulted from the fact that the Income Support Division has required workers to verify expense and income amounts at application along with emphasizing to clients their reporting responsibilities.

5.34 In 1994 electronic data matching with Canada Pension and Human Resources Development Canada was implemented to allow detection of Unemployment and Canada Pension benefits being received by welfare beneficiaries. While overpayment detection procedures have been successful in identifying overpayments, collection continues to be difficult.

5.35 Overpayment balances include both active clients and former clients. For the active client group a recovery rate is established and that amount is recovered from each monthly entitlement. The Department of Health and Social Services has recently put forward a new initiative on overpayment recovery which will see the Region assume responsibility for recoveries on active files while the Department's Investigation and Auditing Services Section takes responsibility for the collection effort on inactive files.

5.36 We continue to note information deficiencies which make it more difficult to manage and control overpayments. Information is needed on overpayments and recoveries by caseworker as well as summary information on collection efforts.

Recommendation

5.37 Management should receive additional information to manage and control overpayments. This would include overpayments and recoveries by caseworker, balances and payments by active and inactive clients, and information on recovery agreements reached with clients.

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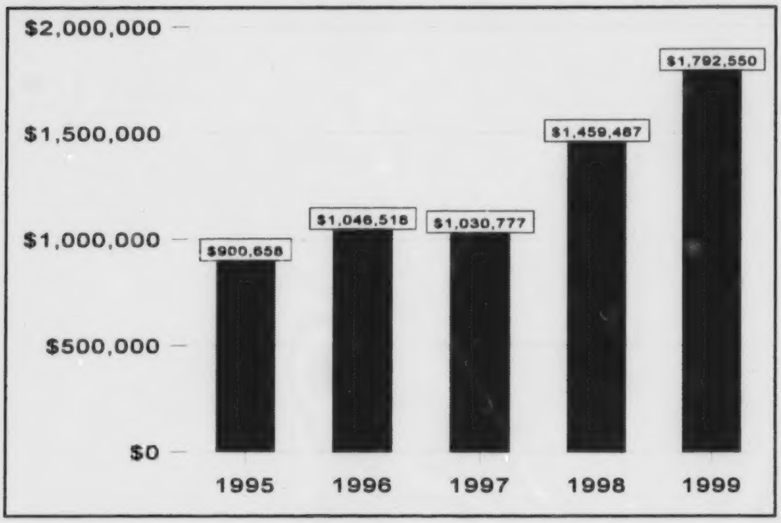

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File Monitoring

5.38 Supervisory review of files helps to ensure consistent application of the Welfare Assistance Act, Regulations, and program policies and procedures. Management has placed a strong emphasis on intake procedures consistent with the focus on client employability. Currently the financial manager reviews files of intake workers on a regular basis, however, files relating to other caseworkers are not subject to regular supervisory review. Examination of worker caseloads as of December 1998 indicated that over 90 percent of the caseload, was carried by long-term financial caseworkers or by workers with specialized caseloads. With the caseload averaging 3,019 per month serviced by 20 caseworkers, it is important that file reviews cover long-term financial cases as well.

5.39 A Quality Control Report produced from the Management Information System is provided to each caseworker. The report highlights missing information and provides a description of errors detected by the system. For example, if a client has reached age 65 and no Old Age Security income is reported the case would be flagged by the system. Caseworkers are assigned responsibility for following up and correcting errors, however, our discussions with management indicate that management currently does not review the Quality Control Reports to ensure errors are corrected on a timely basis.

Recommendations

5.40 The Division should establish a process to ensure supervisory review of each worker's files is carried out on a periodic basis.

5.41 Management should monitor Quality Control Reports and ensure errors noted are dealt with on a timely basis.

Client Files

5.42 We examined a sample of files to assess compliance and to examine file documentation maintained. For files examined we found that verification procedures were generally adequate, however, we have concerns relating to the extent of file documentation and noted instances where increased efficiency in data collection could be achieved.

5.43 New program directions require completion of a detailed employability assessment, followed by a recommendation to job creation or employment enhancement services, or to long term assistance services. In reviewing files, we found employability assessments were not always included in client files and in some cases areas of the assessment form were not fully completed.

5.44 The program policy requires that the case worker, together with the client, ensure a service plan is developed with tasks/activities that are directed toward increased self-sufficiency. While files examined included a variety of notes of a case planning nature, these were dispersed throughout the file and did not provide an overall service plan demonstrating that progress toward self-sufficiency is monitored by caseworkers . An overall plan document that is updated as events occur would provide a better sense that there is a planned direction toward improved self-sufficiency, that identified tasks and activities are being completed, and that the caseworker is evaluating results.

5.45 Implementation of a comprehensive case management system has been discussed by management, however, cost factors are a major impediment and there are no definite plans to purchase such a system. We noted that efficiencies in processing information and improvements in the quality of records could be achieved through computerization of forms currently used and application of existing computer resources. It may also be beneficial to combine information from some forms to reduce the number of documents used.

Recommendations

5.46 Procedures relating to the completion and filing of employment assessment forms should be followed.

5.47 Management expectations relating to the development, implementation and follow-up of case plans should be clearly communicated. Documentation methods should be reviewed to ensure information is maintained on planned activities and tasks, participation in planned activities, and evaluation of progress towards self sufficiency.

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5.48 To reduce the amount of information that is duplicated in the files and to improve the quality of file documentation there should be increased use of computerization in the production of client file documents.

Daycare Subsidy Program

5.49 The Income Support, Employment Enhancement and Job Creation Division administers the Daycare Subsidy Program in the Queens Region. Subsidized daycare is provided to income support clients and to low income families. A review of daycare enrollment data for the month of February 1999 indicated that the Region paid part or all of the daycare costs for approximately 600 children.

5.50 Subsidization levels are determined on the basis of an income based means test and are adjusted as changes in income occur. In addition to the means test, criteria justifying the need for daycare must be met. Program policy cites the following reasons for placement:

(i) children in need of protection;
(ii) parents who are working or attending training programs;
(iii) emergency medical need of parents;
(iv) special needs of physically, mentally or emotionally disabled children; and
(v) school readiness.

5.51 Daycare program expenditures for the 1999 fiscal year for Queens Region amounted to $1.56 million. The Region pays the rates charged by daycare providers up to maximum per diem rates less the amount required to be paid by the parents. The parents' share of daycare costs is based on one half of the excess of the family's net monthly income level over a turning point income level which varies with family sizes.

5.52 **Exhibit 5.3** shows the budget established for the Daycare Program in Queens Region and the actual expenditures for the years 1996 through 1999.

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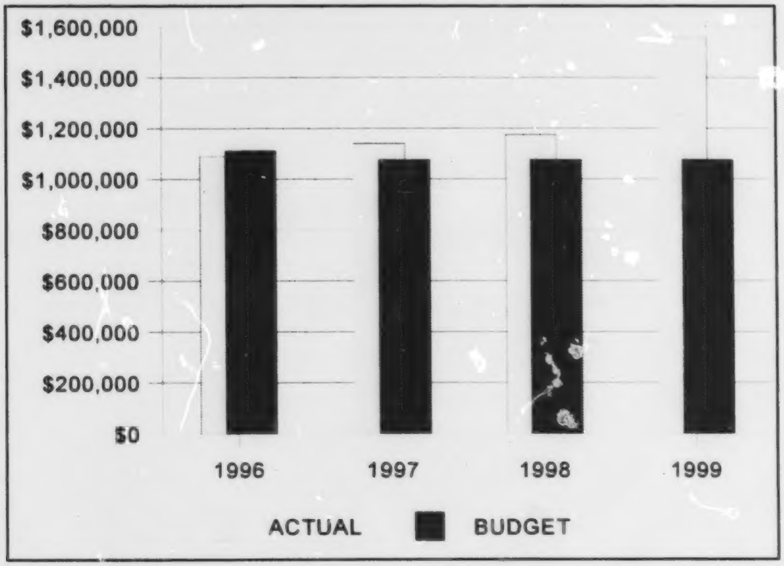

5.53 During the 1999 fiscal year the Department increased the daycare turning point income levels as part of the Province's participation in the National Child Benefit Supplement Program. In addition, the maximum per diem rates paid to daycare centres were increased. These changes allow more families to qualify for subsidies and increase the subsidy levels for families who already qualified.

System Balancing Procedures

5.54 Cheques to financial assistance recipients are generated on regularly scheduled runs of the financial assistance Management Information System (MIS). This system is operated by the Department to generate payments to welfare beneficiaries across the Province and to provide management information reports to the Regions.

5.55 Cheques are also generated from the Region through the Health Financial System (HFS). These payments relate primarily to payments to third parties supplying services to financial assistance recipients and to credit vouchers issued to recipients to provide for urgent needs. Transactions initiated by the Region are transferred in detail to update the financial assistance MIS.

5.56 During our review of financial information obtained from the Department's Management Information System we noted the existence of 130 duplicate records. An investigation of these records determined that they do not represent duplicate payments but were recorded twice when the Region's records were combined with the Department's Management Information System. We are concerned that this inaccurate information was not detected by the system control procedures in place.

Recommendation

5.57 The Region and the Department should implement control total balancing between the Health Financial System records of the Region and the Management Information System records of the Department and ensure that any differences between the systems are detected and corrected.

MANAGEMENT RESPONSE

5.58 Management indicated that the audit report was an accurate reflection of the Region's work and action has been initiated on a number of the recommendations.

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6. HOLLAND COLLEGE

OVERALL COMMENTS

6.1 In December 1997 the Legislative Assembly, through unanimous adoption of a resolution of the Public Accounts Committee, directed the Auditor General to conduct a value-for-money audit of the University of Prince Edward Island and Holland College. We completed our audit of Holland College in December 1999. Our report was forwarded to the Office of the Clerk of the Legislative Assembly in early January 2000 and it became a public document shortly thereafter. In my Annual Report I am providing some overall comments and background information on the College as well as a summary of the recommendations included in the detailed report.

6.2 The College has annual expenditures of almost $30 million and is funded from a combination of government grants, student tuition, contract revenue, and other third party sources. Significant change and expansion has taken place in recent years. The College has been organized into four main program areas. These are: the Program Operations Division; the Atlantic Tourism and Hospitality Institute (ATHI); the Justice Institute; and the PEI Institute of Adult and Community Education (IACE). Organizational and administrative changes were implemented to accommodate this structure including the establishment of the Human and Corporate Services Division and the Enterprise Development Division.

6.3 Coping with the effects of these changes while at the same time providing its regular programs has been a major challenge to the organization's management and staff. Most notably the College had to modernize and adapt its budgetary and financial reporting system to the new realities of its operations. The implementation of the new financial reporting system posed a number of challenges for management and some problems were still being worked on at the time of our audit. Change of this magnitude does not occur smoothly and our detailed report covers a number of issues that the College is addressing.

6.4 On the positive side, the College is servicing a larger number of students who are having a high rate of success in obtaining employment. Good progress has been made in developing the basis for an accountability reporting framework which will provide the College, the Government, and the Legislative Assembly with performance information on the College's progress in meeting its objectives and goals. Also, the College has succeeded in obtaining certification by the International Organization for Standardization (ISO) regarding the quality of its procedures and processes for developing and implementing its programs.

6.5 The most significant current challenge is the College's financial position. At March 31, 1999 it had an accumulated operating deficit of $3.2 million and long-term debt of $3.3 million. We emphasize in our report the need for the College and government to come to grips with this problem. This issue cannot be adequately addressed until a long-term plan outlining the direction of the College is agreed to by the Province and the Board of Governors. When this is developed, a long-term financial plan will be required to deal with the current deficit and the future expectations for the College to deliver programs to students at a reasonable tuition rate.

6.6 Our detailed report makes observations and recommendations on a wide range of subjects including governance, accountability, College programs, the Registrar's Office, facilities management and a number of other administrative support functions.

BACKGROUND INFORMATION

6.7 The Auditor General was directed to conduct a value-for-money audit of Holland College. Section 13 of the Audit Act provides the authority for these special audits and examinations. Value-for-money audits assess the adequacy of management systems, controls and practices in place to ensure due regard to economy, efficiency and effectiveness.

6.8 There is no standard report in current value-for-money auditing practice that is analogous to the auditor's standard report on financial statements. Normally value-for-money audit reports are in the form of direct reporting, where audit criteria are developed as a basis for evaluating management practices and developing audit observations and conclusions. This is the approach we used in our value-for-money audit of Holland College.

6.9 It is important that the expectations from these types of audits be put in perspective. Our objective was to determine if the management practices were adequate and contributed to the economy, efficiency and effectiveness of College operations. It is not within the scope of a value-for-money audit to determine the College's economic and social impact on the Province. Our audit scope was based on the Holland College Act and the governance and management practices that were developed to fulfil its mandate.

6.10 Holland College was established by an Act of the Legislature in 1969. It has grown from a small community college to an organization with annual expenditures approaching $30 million offering more than 65 programs in a number of centres throughout the Island. When we started our audit a number of important initiatives were underway at the College.

6.11 In 1997 the College undertook a process to obtain ISO 9000 certification. The process involved developing, updating, revising and reaffirming policies and procedures which impact many aspects of the College. The initial ISO certification was received in April 1999 and at the time of our audit the College was still in the process of implementing these procedures, as well as developing new procedures as required.

6.12 When we started our audit, the College was in the process of implementing a new financial information system, a process that started in early 1998. The College dedicated significant time and resources to this new system and it is expected to be fully operational this year.

6.13 The College has been incurring deficits in the past few years and a funding proposal has been prepared by the College for consideration by government. The College has undergone significant change and expansion in recent years and it is an opportune time for setting some long term strategic direction and funding plans for the College.

6.14 Complete coverage of all programs and operations at the College would not be possible nor practical. Our audit covered a number of broad College-wide issues such as governance and accountability as well as a number of programs and activities based on their materiality in terms of expenditures and affect on the students and the general public.

6.15 Our audit was performed in accordance with auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances. The audit criteria used as the basis of our assessment were agreed to by the College. We used outside expertise to assist us in auditing some aspects of the academic/vocational programs and the information technology systems at the College.

6.16 The majority of the audit work was completed by staff of my office and I acknowledge their dedicated efforts and professionalism. I would also like to express my appreciation to the management and staff of the College for their courtesy and cooperation.

REPORT RECOMMENDATIONS

6.17 Following are the recommendations which were included in the detailed audit report.

Governance

6.18 The process for determining appointments to the Board of Governors by the Lieutenant Governor in Council should be improved. Guidelines on desirable qualifications and attributes of prospective Board members should be developed by the College and input from the Board Chair should be provided when filling all vacancies.

6.19 The membership of standing committees of the Board, established in Board regulations, should be followed.

6.20 The configuration of the Board of the Institute of Adult and Community Education should be in accordance with the terms established in the articles of incorporation.

6.21 The roles, responsibility and authority of the Institute Boards of Directors in relation to the Board of Governors of the College should be clarified.

6.22 The Board of Governors should request periodic reporting on the goals and objectives of the Foundation and the results achieved.

6.23 The Provincial government, in consultation with Holland College and the public, should develop a long-term plan for post secondary education for the Province supported by a long-term funding commitment to the College.

Accountability

6.24 The College should provide summary performance information in its annual report to the Legislative Assembly. The report should:

- focus on results and achievements;
- relate actual achievements to expectations;
- include both the successes and shortcomings of performance; and
- relate costs to results.

Comparative Information

6.25 More detailed information should be obtained from other Atlantic colleges on revenues and expenditures. This information could be used to identify significant trends and variances that should be considered in determining and assessing funding requirements.

Financial Control and Budgeting

6.26 The College's deficit situation should be addressed. Funding requirements should be assessed based on a long-term plan developed in consultation with the Provincial government.

6.27 The College and the Provincial government should reach an agreement on the requirements of the Holland College Act related to Executive Council approval of long-term debt.

6.28 Management should ensure the Oracle financial system is fully implemented and complete, accurate financial information is available on a timely basis.

6.29 Reports comparing budgeted revenue and expenditures to actual results should be prepared on a timely basis and explanations for variances should be provided by management to the Board of Governors.

6.30 Accounts receivable over 90 days old should be investigated and collectibility determined. After all efforts are made to collect accounts, those which are determined to be non-collectible should be written off.

6.31 Purchase orders should be issued in accordance with the operational guidelines and procedures.

6.32 The Procurement unit should produce a quarterly report on its activities as required by the operational guidelines and procedures.

6.33 The reporting features within the Oracle Purchasing Module should be implemented.

6.34 The College should more closely monitor its contract training revenues in comparison to budget.

6.35 The direct costs to provide contract training should be calculated and compared to related revenues to determine if revenue is covering costs.

6.36 The College should do a full costing of its programs including an appropriate allocation of indirect costs.

Planning

6.37 Based on a long-term plan for post secondary education endorsed by government, the College should develop a long-term plan that indicates the direction for the College in relation to the mission and overall goals of the College.

6.38 Reports on results achieved in relation to the strategic plan should be presented to the Board of Governors on a quarterly basis.

6.39 The College should work to establish a framework for operational planning at the Division/Institute level.

College Programs

6.40 The College should ensure that procedures on evaluation of teaching staff are developed, communicated, and adhered to throughout the College.

6.41 For the Atlantic Tourism and Hospitality Institute, specific advisory roles and responsibilities in relation to programs and courses should be documented and approved.

6.42 ISO procedures for Divisional/Departmental meetings should be adhered to.

6.43 Consideration should be given to having the Institute of Adult and Community Education programs included in the Critical Performance Indicator Report.

Human Resources

6.44 The policies being developed by the Institute of Adult and Community Education should be approved by the Board of Governors of Holland College.

6.45 Management of IACE and ATHI should document the policies and guidelines to fill positions and have them approved by the Institute Boards and the Board of Governors.

6.46 The College should complete the development of a performance review process to ensure employees are reviewed at least annually.

Registrar's Office

6.47 The Registrar's Office should complete a business process analysis as required by the Board of Governors and include recommendations for improvement in the Registrar's Office.

6.48 The College should consolidate its current enrolment information and prepare a documented Enrolment Management Plan which should be updated on a regular basis. The plan should set the desired student enrolment by program, include a recruitment management plan, require performance information on the achievement of recruitment plan objectives, and include retention strategies.

6.49 The temporary Student Information System should be replaced as soon as possible with an improved system that meets the student information needs of the College.

6.50 The Enrolment Management Report should be modified to indicate the year an applicant is interested in applying for.

Facilities

6.51 Holland College should develop a plan of action to deal with the issues raised in the engineering studies as well as other repair and replacement needs. Periodic reports showing repairs completed compared to planned repairs should be presented to management.

6.52 The College should review the current utilization of space by program and prepare a space utilization plan.

6.53 Holland College should give immediate attention to possible options for disposal of Harbourside Centre. In the absence of immediate disposal possibilities, the potential for refinancing at lower interest costs should be investigated and the College should consider measures to minimize the net operating losses of this site including obtaining additional tenants.

6.54 All facilities should be assigned cost codes, and summary financial reports for each facility should be prepared for management on a timely basis.

6.55 Holland College should extend implementation of on-line inquiry functions on the financial information system to provide up-to-date budget and expenditure information to management and eliminate the additional manual records now in use.

6.56 Holland College should seek more economical lease rates in Montague and Souris.

6.57 All facilities rentals should be arranged through the Facilities Section and documented in rental agreements.

6.58 Arrangements for third party use of facilities of the Justice Institute should be formalized in an agreement detailing use and service provisions for each party, as well as adequate insurance and indemnification provisions.

Information Technology

6.59 The College should document a formal long-term IT strategy, with appropriate approval at the management level.

6.60 Changes to the design of any application, either existing or under development, should be formally documented and include approval from senior management.

6.61 Test plans should be formally documented and implemented for all development projects.

6.62 Formal sign off rather than verbal acceptance should be obtained from all end-users at completion of user acceptance testing.

6.63 Formal procedures for transferring programs into the production environment should be developed and implemented.

6.64 Formal post-implementation reviews should be performed on all future in-house development projects.

6.65 Documentation for the Student Information System interim solution project should be completed to ensure end-users and technical support staff have adequate information to use and maintain the application.

6.66 Disaster Recovery planning should be developed for the Student Information System interim solution project and included in an IT Disaster Recovery Plan.

6.67 The College should review the current training policies to ensure a minimum level of competency is established in the core applications.

6.68 Computer Services should obtain appropriate training for the individuals maintaining the Window NT and UNIX servers to ensure these servers are adequately maintained.

6.69 Computer Services should develop and document an IT Disaster Recovery Plan as soon as possible. The plan should also be tested on a regular basis to ensure procedures will work and are current.

6.70 Computer Services should obtain and install the required memory upgrade as soon as possible, in order to avoid further performance problems on the mail servers.

Library Services And Bookstore Operations

6.71 Holland College should develop a process for the receipt and reporting of resource materials that meets the needs of programs and ensures that resource materials are catalogued and controlled.

6.72 The informal operating procedures of the Bookstore should be formally documented and approved by management.

6.73 The financial results of the Bookstore operations should be reported to the Bookstore manager and monitored against budget on a timely basis.

SUMMARY COMMENTS

6.74 We intend to follow up on these recommendations and provide an update to the Legislative Assembly.

FINANCIAL STATEMENT AUDITS

7. INTRODUCTION TO FINANCIAL STATEMENT AUDITS

INTRODUCTION

7.1 Section 13 of the Audit Act establishes the Auditor General's mandate to perform financial audits of the Public Accounts, Crown controlled or owned corporations, and the trusts and funds held by any agency of government insofar as they are not subject to financial audit by an external auditor.

7.2 Financial statements are management's responsibility and reflect management's assertions. They provide information that is used to make important economic decisions. It is imperative that the reader has confidence in the quality of that information.

7.3 The auditor is independent of management and can objectively assess the accounting principles used and the estimates and other decisions made by management as reflected in the financial statements. An examination of the entity's accounts is carried out in accordance with generally accepted auditing standards. These standards have been established over time and continue to evolve with the changing economic environment. The result of the examination is the auditor's opinion as issued in the Auditor's Report.

7.4 In addition to issuing an Auditor's Report on the financial statements, the auditor may also identify problems in the financial controls and accounting records. In these cases, findings and recommendations are reported in a management letter addressed to the department or agency.

7.5 For the majority of the financial statement audits we performed, management letters were issued. We brought to management's attention any problems noted during the audits and made recommendations for improvements. These recommendations are at various stages of implementation.

7.6 In the following sections we provide summary information on our audits of the Public Accounts, Appropriations, and the Public Trustee.

8. PUBLIC ACCOUNTS

BACKGROUND

8.1 In accordance with the Financial Administration Act the Comptroller prepares the Public Accounts of the Province and the Provincial Treasurer tables them in the Legislature.

8.2 The Public Accounts contains two sets of financial statements; the Operating Fund and the Consolidated (Summary) Financial Statements. The Operating Fund Financial Statements provide the financial position and results of operations for government departments. The Consolidated (Summary) Financial Statements provide the financial position of government as a whole by including the Operating Fund as well as Crown corporations and agencies.

8.3 The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants makes recommendations to improve and harmonize public sector financial reporting. Currently, the Consolidated (Summary) Financial Statements are in compliance with most of the recommendations of PSAB.

OBJECTIVES AND SCOPE

8.4 In accordance with the Audit Act, we performed an audit of the Public Accounts of the Province for the year ended March 31, 1999. Our audit was performed in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

8.5 Under Section 17 of the Audit Act, the Auditor General is not required to audit or report on the accounts of any agency of government where another auditor has been designated to audit its accounts. In these instances, the Auditor General relies on the Auditor's Report for each of these entities when performing the audit of the Public Accounts.

FINANCIAL HIGHLIGHTS

8.6 Following is a comparison of revenue and expenditure for the years ended March 31, 1999 and March 31, 1998 from the **Consolidated (Summary) Financial Statements.**

8. Public Accounts

	Year Ended March 31 (Millions)	
	1999	1998
Revenues	$874.5	$803.5
Expenditures	852.6	818.5
Surplus (Deficit) before Adjustments	21.9	(15.0)
Pension Adjustment	6.0	9.3
Gain on Government Enterprises	.2	(.6)
Surplus (Deficit)	$ 28.1	$ (6.3)

8.7 Following is a breakdown of provincial and federal revenue sources for the year ended March 31, 1999 with comparative figures for the prior year.

	Year Ended March 31 (Millions)	
Provincial Sources	1999	1998
Taxes	$393.2	$385.5
Licences and Permits	14.9	13.5
Fees and Services	33.1	33.8
Sales	28.6	26.8
Investment Interest	11.0	11.5
Other Income	11.3	10.2
Subtotal Ordinary Revenue	492.1	481.3
Sinking Fund Earnings	21.8	21.5
Capital Revenue	.9	1.8
Total Revenue	$514.8	$504.6

	Year Ended March 31 (Millions)	
Federal Sources	1999	1998
Equalization	$268.5	$208.3
Canada Health and Social Transfer	62.3	59.1
Other Federal Payments	19.2	24.1
Subtotal Ordinary Revenue	350.0	291.5
Capital Revenue	9.7	7.4
Total Revenue	$359.7	$298.9

DETAILED AUDIT OBSERVATIONS

Financial Statement Presentation

8.8 The Public Accounts Volume 1 contains two different surplus/deficit amounts: one reported under the Consolidated (Summary) Financial Statements and the other under the Operating Fund. In addition, Volume 1 contains the Budget Estimates for the Operating Fund. It does not, however, include consolidated budget figures for comparison to the Consolidated (Summary) Financial Statements. In our opinion, Volume 1 should only contain the Consolidated (Summary) Financial Statements and the related Consolidated budget figures. This would provide users of the financial statements with a complete and concise picture of the Province's finances.

8.9 For the year ended March 31, 1999 the Consolidated surplus was $28 million while the Operating surplus was $6 million. Most of this $22 million difference relates to the PEI Special Projects Fund. In March 1999 the Special Projects Fund was created and provided with a $23.5 million grant. This grant was recorded as an expenditure in the Operating Fund of the Province in 1998-99. The Fund was not created until the end of the fiscal year and did not incur any expenditures in 1998-99, leaving it with a retained surplus of $23.5 million at March 31, 1999.

8.10 When preparing the Consolidated (Summary) Financial Statements, the surpluses and deficits of Crown agencies within the reporting entity are included in the calculation of the consolidated surplus or deficit. Under this approach the $23.5 million surplus of the Special Projects Fund is combined with the surpluses/deficits of all entities in the government reporting entity. The Consolidated financial statements are more complete because they include all government entities.

Recommendation

8.11 The Public Accounts - Volume 1 should contain the Consolidated (Summary) Financial Statements and corresponding Consolidated budget figures. The Operating Fund Financial Statements and related Budget Estimates should be included in Volume 2 of the Public Accounts.

DETAILED AUDIT OBSERVATIONS

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Recommendation

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Public Sector Accounting Board (PSAB)

8.12 The PSAB recommendations have been in place for several years. The Province's implementation of many of these recommendations has resulted in significant changes to the Public Accounts.

8.13 While much has been accomplished, discussions are still underway on current recommendations and issues where new pronouncements are pending. These discussions focus not only on interpreting recommendations but also on assessing the impact on the Province's financial position. The following issues still need to be addressed:

Consolidated Budget Estimates

8.14 In prior years we have commented on the need for Consolidated (Summary) Budget Estimates. The current Budget Estimates relate to the Operating Fund Financial Statements making it difficult to compare to the financial results in the Consolidated (Summary) Financial Statements.

8.15 Since the Province's annual surplus or deficit is the main measure of financial performance, financial statement users should be given sufficient information to compare actual results to budget. The Consolidated (Summary) Financial Statements with corresponding consolidated estimates would be a more complete document for understanding and assessing trends in government financial operations.

8.16 The Comptroller agrees with the need for Consolidated Budget Estimates and indicated that the information necessary to prepare them is now available with the new Financial Information System. Several other jurisdictions are now preparing consolidated budget estimates.

Accrued Employee Benefits

8.17 Previously this area was mainly limited to pension-related liabilities but accounting recommendations are now focusing on other post-employment entitlements as well. It is important that any new pronouncements be implemented within a reasonable time frame.

8.18 The CICA Handbook has a new section on accounting for employee pension benefits and other related employee benefits such as retirement pay. In 1995 the Province recorded a $26 million liability for accrued vacation and retirement benefits, however, it only included Civil Service employees and some employees in the health sector. The liability has been updated regularly but it still does not include all applicable health sector employees or any employees of the school boards. At March 31, 1999 the recorded liability for vacation and severance entitlements was $28 million. PSAB is currently working on changes to accounting recommendations for pension benefits and is developing recommendations for other employee related benefits.

8.19 Given that potential changes may occur in this area soon, it would be timely for the Province to do the following:

- monitor the status and potential financial impact of accounting pronouncements;
- gather complete information on all applicable liabilities; and
- review existing balance sheet and income statement items and note disclosures in an effort to simplify the financial statement presentation.

Timely Financial Statements

8.20 We continue to support the Comptroller's intention to have the Public Accounts released on a more timely basis. Prior to 1998 the Public Accounts were released approximately a year after the fiscal year-end. For the last two years the Public Accounts have been released in December following the year-end. While this is an improvement over previous years, it is still much later than most other provinces and needs to be improved.

Tangible Capital Assets

8.21 A PSAB section on tangible capital assets became effective in September 1997. This section recommends that a new Statement of Tangible Capital Assets be prepared outlining the capital assets of the Province along with an appropriate amortization period. Tangible capital assets are a significant economic resource managed by government and a key component in the delivery of many government programs and include roads, bridges, buildings, vehicles, equipment, land, computer hardware and software. Providing complete information about tangible capital assets held and the related amortization in the summary financial statements would demonstrate stewardship and show the cost of using those assets to deliver programs. The information would be useful for assessing performance, and making resource allocation decisions. It would also provide managers with more complete information to control the tangible capital assets for which they are responsible and to plan for asset maintenance and replacement.

8.22 A tangible capital asset schedule was included for the first time in the 1998-99 Public Accounts. The notes at the bottom of the schedule indicate its limitations. The schedule was unaudited since much of the information was prepared just prior to the release of the Public Accounts. Although this schedule is a valuable starting point in capturing the necessary information, some of the data used and assumptions made will require further discussion and additional research. For example, the 40 year amortization period for roads and bridges might be suitable for bridges but is not realistic for roads. Also the schedule is incomplete and further work is needed to identify all capital assets. We are advised that Provincial Treasury plans to do further work in this area.

Government Reporting Entity

8.23 PSAB indicates what should be included in the government reporting entity and defines the requirements on how to account for each government entity. Basically, entities that require government assistance are consolidated and entities that can operate as a business without government assistance are accounted for by the modified equity method.

8.24 Reporting on a consolidated basis presents summary information that aggregates the individual financial statements of organizations comprising a reporting entity. Consolidation is a method of accounting that combines the accounts of those organizations line-by-line on a uniform basis of accounting and eliminates inter-organizational balances and transactions.

8.25 Under the modified equity method, the government aggregates a business enterprise's net assets and net income by adjusting the investment shown in the government's statement of financial position and by presenting the net income as a separate item on the government's statement of revenues and expenditures.

8.26 Three agencies, the Agricultural Insurance Corporation, the PEI Energy Corporation, and the PEI Regulatory and Appeals Commission are not properly classified in the Province's Consolidated (Summary) Financial Statements. These entities receive a significant amount of their funding from the Province and according to PSAB recommendations should be accounted for on the consolidated basis.

Expenditure by Object

8.27 Expenditure by object information is included in Statement 3 of the Operating Fund Financial Statements and shows expenditures for the following categories: administration, debt, equipment, materials and supplies, professional and contract services, salaries and employee benefits, travel and training, and transfer payments. The Consolidated (Summary) Financial Statements do not include a similar statement showing expenditures by object. The information included should be consistent with the Operating Fund Financial Statements.

Loans Receivable

8.28 PSAB recommendations for loans receivable include the requirement to disclose detailed conditions such as repayment and interest terms. The Public Accounts does not disclose this information for the Province's loans receivable.

Recommendations

8.29 The Department of Provincial Treasury should prepare consolidated budget estimates for approval by the Legislative Assembly.

8.30 The Public Sector Accounting Board recommendations related to accrued employee benefits, tangible capital assets, the government reporting entity, expenditures by object, and loans receivable should be followed.

Sinking Fund/Funded Debt

8.31 Our audit of the Public Accounts includes Sinking Fund assets and Funded Debt liabilities. The largest single liability of the Province is its outstanding debentures, which account for $919 million of the Province's $1.6 billion total liabilities. This debt is

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8.31 Our audit of the Public Accounts includes Sinking Fund assets and Funded Debt liabilities. The largest single liability of the Province is its outstanding debentures, which account for $919 million of the Province's $1.6 billion total liabilities. This debt is funded because the Province makes annual contributions to a sinking fund. These contributions, along with the investment income earned, will be used to repay long-term debt upon maturity.

8.32 At March 31, 1999 sinking fund assets amounted to $273 million. Included in the $273 million sinking fund are excess funds that have accumulated over and above the legal requirement needed for the principal redemption of individual debentures. This $53 million amount is known as the Market Contingency Fund.

Pension Funds

8.33 An unfunded pension liability arises when the pension entitlements owed to employees exceed pension fund assets. The most recent estimates show a gross pension obligation for the Civil Service, Teachers' and MLA Pension funds of $158 million at March 31, 1999. The Province has made a commitment to make payments to the Teachers' and Civil Service Superannuation funds over a ten year period beginning in 1995-96. When the present value of the remaining payments are deducted from the gross pension obligation, the result is a net obligation for all plans at March 31, 1999 of $68 million.

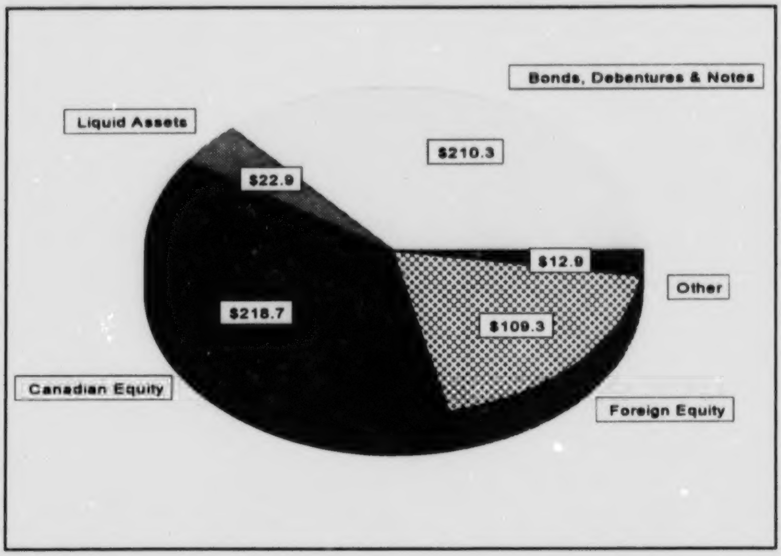
8.34 During our audit of the Civil Service Superannuation Fund for the year ended March 31, 1999 we identified a number of administrative and accounting issues that require attention. We outlined our concerns in a management letter and we will follow up on these issues next year.

PEI Master Trust

8.35 Investments of the Teachers' Superannuation, Civil Service Superannuation, and MLA Pension Funds are consolidated into the Province of PEI Master Trust. The individual funds receive units in the Master Trust based on net contributions and allocated shares of income and management expense. The investments are managed by investment managers external to government and an external custodian is responsible for the accounting and record keeping of the Master Trust. The Fiscal Management Division of Provincial Treasury is responsible for overseeing the Master Trust.

8.36 Master Trust assets had a market value of $574.1 million at March 31, 1999. **Exhibit 8 .1** shows a breakdown of the investments.

EXHIBIT 8.1
MASTER TRUST INVESTMENTS
MARCH 31, 1999
($ Millions)



Special Projects Fund

8.37 The Prince Edward Island Special Projects Fund was established under the Financial Administration Act effective March 31, 1999. Pursuant to Section 14.8 of the Financial Administration Act, the Lieutenant Governor in Council made regulations for the Fund. These regulations established programs through which money can be disbursed, outlined the purpose of each program and determined eligibility criteria. For the 1998-99 fiscal year, the Province issued a special warrant authorizing a supplementary payment of $23.5 million out of the Operating Fund to the Special Projects Fund. The Special Projects Fund did not incur any expenditures in 1998-99.

Federal Revenue

8.38 The Atlantic Freight Transition Agreement requires the federal government to pay claims within 30 days of the Province's submission of a claim. These deadlines were not met with respect to claims for fiscal year 1998-99. A claim for $766,021 was submitted to the federal government in December 1998. During our audit we made inquiries at the federal and provincial level and determined that this claim was still outstanding. We further determined that the claim had not been recorded as a receivable by the Department and had not been monitored or followed up by Department staff. After we pursued this matter further with federal and provincial officials, the claim was finally paid in November 1999. Two other claims under this same agreement in the amounts of $7,956,195 and $728,805 were both submitted to the federal government in May 1999 but were not paid until August 1999. These delays in payment resulted in additional financing costs of $113,000 for the Province.

8.39 Other problems noted in recording federal revenue were as follows:

- Revenues totalling $624,000 which should have been recorded in 1997-98 were not recorded until 1998-99 when the monies were received.
- Revenues totalling $344,000 which should have been recorded in 1998-99 were not recorded until 1999-2000 when the monies were received. Although we recommended an adjustment to correct this cut-off error, no adjustment was made.
- Revenues totalling $323,000 relating to claimable 1998-99 expenditures were not initially recorded. After this matter was raised during the audit, an adjusting entry was made to record $272,000 of the March 31, 1999 outstanding revenues, but no adjustment was made to record the other $51,000.
- Revenues totalling $294,000 which were included with the March 31, 1999 receivables were taken into revenue a second time when received in July 1999.
- Two cash receipts totalling $107,000 which should have been recorded as 1998-99 revenues were instead credited against the corresponding expenditures. This method of accounting is not a generally accepted practice, and could lead to budget overspending. No adjustment was made to correct this error.
- Other federal claims receivable at March 31, 1999 totalling $1.2 million were improperly recorded in other receivable accounts. Although a classification error such as this does not affect the Province's reported total assets or its revenues, it diminishes the usefulness of year to year comparative figures and increases the difficulty of reconciling federal and provincial records. Our recommended adjustment to improve the financial presentation was not made.

8.40 Various departments have responsibility for recording and monitoring federal claims. It appears that existing problems would be reduced by centralizing these responsibilities in the Comptroller's Office.

Recommendation

8.41 The Comptroller should implement corrective measures to ensure that all revenues from the federal government are received on a timely basis, and are properly recorded in the Province's accounts.

Accounts Receivable

8.42 Various accounts receivable related to the Department of Transportation and Public Works are recorded in the Province's records. The detailed breakdown provided by the Department showed that $336,000 of the $1.28 million balance at March 31, 1999 was still outstanding from March 31, 1998. The longer these amounts remain outstanding the greater the chance they will not be collected in full. In addition, interest charges are not being applied to the outstanding balances.

Recommendation

8.43 Receivables of the Department of Transportation and Public Works should be collected on a timely basis. Any amounts considered uncollectible should be written-off. Interest charges should be applied to outstanding balances.

Leased Tangible Capital Assets

8.44 The Public Sector Accounting Board is working on a project on Leased Tangible Capital Assets. This project should be completed shortly and will contain guidelines for the accounting and reporting of government leased assets. Recently our office reviewed two leases which are being accounted for by the Province as operating leases. However, based on the supporting information they should be recorded as capital leases. An operating lease is a lease in which the lessor retains substantially all the benefits and risks incident to ownership of property. A capital lease is a lease that transfers substantially all the benefits and risks incident to ownership of the property to the lessee. Both of the leases involve the Department of Transportation and Public Works and the Charlottetown Area Development Corporation. We were advised by Transportation and Public Works staff that the objective of entering into these leases was to defer renovation costs to future accounting periods. Appropriate accounting treatment requires capital leases to be accounted for in the same manner as capital expenditures.

8.45 In one lease arrangement, the Law Courts Building, the Department managed the renovation project and has been paying the bills for the project. The Province is transferring the cost of the project to CADC and then providing CADC with loans to pay for the costs of the project. The total cost of the project is expected to be $4.8 million. In our opinion, the Province should record the entire cost of this project as a capital expenditure.

8.46 The second project involves the lease of the Kelly Building. The Province provided $800,000 of financing for renovations to the building . The Courthouse staff moved into the Kelly Building early in 1998, however, lease payments were deferred until November 1999. The lease payments were based on total costs of $1.6 million consisting of the original cost of the building, the amounts deferred, and the renovation costs. The Province plans to account for this project as an operating lease.

Recommendation

8.47 Project costs, determined for the Law Courts and Kelly Building leases, should be expensed.

Cancellation or Discharge of Debt

8.48 Section 16 of the Audit Act requires the Auditor General to report the total amount of any claims, debts or monies due to the Province that have been discharged, cancelled, and released under Section 26 of the Financial Administration Act. The amount cancelled or discharged under this section in the 1998-99 fiscal year was $4,232,618. This amount related to the Revenue Tax Act $632,149; Real Property Tax Act $62,427; Enterprise PEI $2,913,504; and the Lending Agency $624,538.

8.49 The Enterprise PEI amount does not relate to debts or obligations owed to the Province or a Crown agency. These transactions were payouts on legal claims against the Province from previous years.

Surplus (Deficit) of Crown Agencies and Corporations

8.50 Section 16 of the Audit Act requires the Auditor General to include in his report information on deficits of any agency of government not covered by appropriations in the year in which they have been incurred, and any surpluses not paid into the Operating

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Surplus (Deficit) of Crown Agencies and Corporations

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Fund in the year in which they are earned. For information purposes we have also included the cumulative surplus or deficit for each entity.

AGENCY	Annual Surplus (Deficit) For the Year	Cumulative Surplus (Deficit)
Agricultural Insurance Corporation	$ 8,539	$ 7,653,422
Agricultural Research Investment Fund Inc.	(272,714)	1,158,490
Grain Elevator Corporation	(136,939)	20,446
Human Rights Commission	17,230	(3)
Workers Compensation Board	(1,965,231)	(28,088,596)
Charlottetown Area Development Corp.	497,504	5,494,096
Energy Corporation	13,356	67,521
Enterprise PEI	(512,669)	1,473,855
Island Investment Development Inc.	(16,863)	(276,986)
Summerside Regional Development Corp. Ltd.	(33,470)	2,329,952
Eastern School District	289,943	(219,776)
French Language School Board	6,260	56,951
Western School Board	(53,857)	(71,953)
Museum and Heritage Foundation	(10,776)	538,851
Aquaculture and Fisheries Research Initiative Inc.	(40,335)	849,427
Tourism PEI	822,453	900,567
Lending Agency	63,865	63,865
Self-Insurance Fund	299,357	7,504,087
Special Projects Fund	23,500,000	23,500,000
Innovative Solutions Agency (PEI) Inc.	44,904	44,904
Crown Building Corporation	(901)	279,028

8.51 Section 72 of the Financial Administration Act deals with the issue of surpluses and deficits as well; however, it only deals with Crown corporations that are listed in Schedule B of that Act. Under Section 72 an Order-In-Council is required when an entity in Schedule B is retaining a surplus or deficit. School Boards and Health Authorities are included in Schedule C and are therefore not included in the current approval process. In our opinion, this section of the Act should be expanded to include the entities under Schedule C and D of the Financial Administration Act as well as other significant government entities such as the Special Projects Fund which retained a surplus of $23.5 million. It is important that government address the surpluses and deficits of all government entities.

MANAGEMENT RESPONSE

8.52 These matters have been discussed with management and a written response will be provided.

9. APPROPRIATIONS

INTRODUCTION

9.1 Our audit of Appropriations for the year ended March 31, 1999 included a review of the systems and procedures for the administration of the Province's annual budget. This required an audit of appropriations approved by the Legislature, and special warrants approved by Executive Council on the recommendation of Treasury Board.

9.2 The Appropriation Act provides the spending authority for government and is approved annually by the Legislative Assembly. Appropriations for 1998-99 were approved in the Appropriation Act 1998. If additional funds are required during the year, special warrants are issued by the Lieutenant Governor in Council.

9.3 In **SCHEDULE A** attached to this report, we provide a comparison of appropriations to actual expenditures in accordance with the classifications in the 1998 Appropriation Act adjusted to reflect the reorganization of government effective April 1, 1998.

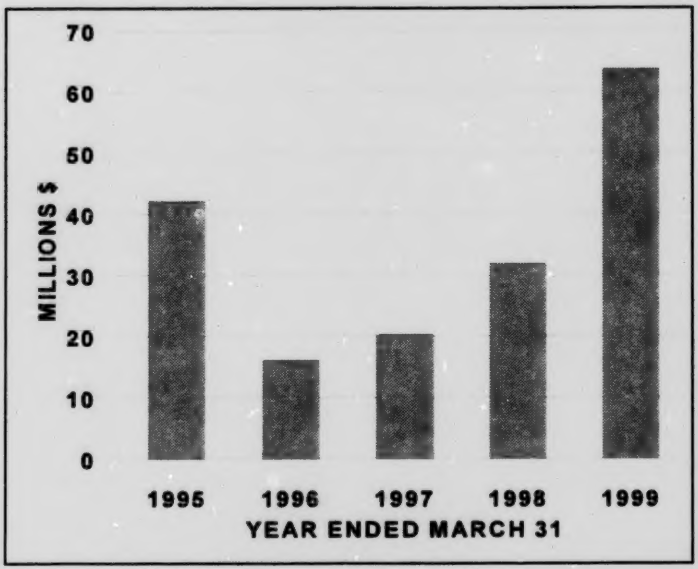
SPECIAL WARRANTS

9.4 Section 16(h) of the Audit Act requires the Auditor General to list in detail appropriations made by special warrant and the purpose of such appropriations. Details are shown in **SCHEDULE B** attached to this report.

9.5 For the 1998-99 fiscal year, special warrants totalled $73.8 million compared to $36.7 million in 1997-98. Of the special warrants issued for 1998-99, $10.1 million was offset by revenue. In addition, funds of $.9 million were sequestered out of the 1999-2000 budget.

9.6 **Exhibit 9.1** indicates the special warrants net of any offsets for the last five years.

EXHIBIT 9.1
SPECIAL WARRANTS LESS OFFSETS



Intent of Special Warrants

9.7 According to the Financial Administration Act, with the exception of special warrants, payments are not to be made out of the Operating Fund without the authority of the Legislative Assembly. The Budget Estimates are prepared annually for the Legislative Assembly to serve as detailed support for appropriations approved in the Appropriation Act. The Financial Administration Act provides for special warrants to be used where the Legislative Assembly is not in session and a payment is required for the public good and there is no available appropriation. It is a requirement that special warrants be approved in the next session of the Legislative Assembly by way of a supplementary Appropriation Act.

9.8 For the 1998-99 fiscal year, special warrants totalled $73.8 million. In some cases, the special warrants are used to record a transaction as an expenditure in the current year rather than waiting for the next fiscal year.

9.9 The section of the Act allowing for the use of special warrants has been interpreted very broadly. It is reasonable that a process exists to address situations requiring additional funds when the Legislative Assembly is not in session. It would appear there is a need to review this section of the Financial Administration Act and develop criteria to determine when special warrants are required.

Recommendation

9.10 Treasury Board should develop explicit criteria to determine when special warrants are appropriate under the Financial Administration Act.

MANAGEMENT RESPONSE

9.11 Provincial Treasury accepts the suggestion and commits to the review of the Financial Administration Act to determine if criteria need to be developed to provide additional guidelines for the use of special warrants.

9.9 The section of the Act allowing for the use of special warrants has been interpreted very broadly. It is reasonable that a process exists to address situations requiring additional funds when the Legislative Assembly is not in session. It would appear there is a need to review this section of the Financial Administration Act and develop criteria to determine when special warrants are required.

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MANAGEMENT RESPONSE

9.11 Provincial Treasury accepts the suggestion and commits to the review of the Financial Administration Act to determine if criteria need to be developed to provide additional guidelines for the use of special warrants.

10. PUBLIC TRUSTEE

INTRODUCTION

10.1 The Public Trustee is responsible for the administration of trust fund assets received pursuant to the Public Trustee Act. Two important functions of the Public Trustee are to look after the assets of individuals who are declared incompetent and to administer the estates of deceased individuals where no one is responsible or qualified to administer the estate. The Public Trustee records contained 478 client accounts totalling $9.2 million at March 31, 1999.

OBJECTIVES AND SCOPE

10.2 We conducted an audit of the accounts and financial transactions of the Public Trustee for the year ended March 31, 1999, in accordance with Section 12 of the Public Trustee Act. Our objective was to express an audit opinion on the financial statements.

DETAILED AUDIT OBSERVATIONS

Increase in Activity

10.3 The Public Trustee's activities have increased significantly over the past five years. The total number of clients increased from 247 at March 31, 1994 to 478 at March 31, 1999. Total assets under administration during this period increased from $6 million to $9.2 million.

10.4 Some of the new clients were referred by Health and Social Services for assistance in managing their finances. Such trusts require considerable attention due to the amount of activity, and several of these were trusts with negative net assets at March 31, 1999. The appropriateness of the Public Trustee's involvement with cases of this nature is questionable.

Recommendation

10.5 Criteria should be established for the Public Trustee's acceptance of new clients.

Trust Accounts

10.6 The Public Trustee is responsible for the administration of trust fund assets received under the Act. As a result of this trustee relationship, assets and financial transactions of each individual trust account are unique and must be accounted for separately. Under no circumstances should a trust account be allowed to fall into a deficit position.

10.7 A separate trust account is maintained for each client and cash and other assets are recorded and credited to each client's account. Payments on behalf of clients are made from these accounts as needed. We observed numerous accounts where payments exceeded the available cash balance in the account. We also observed more serious situations where payments were made on behalf of clients who had no assets. Under trust arrangements these practices are unacceptable.

10.8 As of March 31, 1999 there were 34 trust accounts with negative trust balances ranging from $12 to $6,576. These negative balances were $39,555 in total. There were no other assets to cover the deficits in these trust accounts.

10.9 In addition to these accounts, there were 43 trust accounts with negative cash balances while having other assets on hand. The negative cash balances in these accounts ranged from $42 to $19,112 and totalled $169,731. In most of these cases, the other assets should have been liquidated to cover payments out of the account in excess of the available cash balance.

10.10 We brought these issues to the attention of the Public Trustee and the Department of Community Services and Attorney General. Since our audit we have inquired on progress to correct this situation, and are advised that action is being taken to address our concerns.

Recommendations

10.11 Immediate action should be taken to correct all trust accounts with negative balances.

10.12 Under no circumstances should a trust account be allowed to go into a deficit position.

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Recommendations

10.11 Immediate action should be taken to correct all trust accounts with negative balances.

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Computerization of Accounting Function

10.13 Given the significant increase in the number of client accounts and the value of assets managed by the Public Trustee, computerization of the accounting system would be appropriate. The current manual system requires significant time to maintain and the potential for error increases with the large volume of transactions.

Recommendation

10.14 The Public Trustee should implement a computerized accounting system as soon as possible.

Advisory Committee

10.15 An advisory committee exists pursuant to the Public Trustee Act, having the power to make recommendations respecting the management and conduct of the Office of the Public Trustee as it considers advisable. The committee met during 1997-98 but there were no meetings held during 1998-99. This advisory committee is also provided for the Public Trustee to consult with respecting administrative matters. Considering the value of assets being administered, the Public Trustee should consult with the advisory committee on a more frequent basis.

Recommendation

10.16 The Public Trustee should consult the advisory committee more frequently.

Annual Report

10.17 The Public Trustee Act requires the advisory committee to provide an annual report to the Lieutenant Governor in Council. This requirement has not been complied with. Presently the Public Trustee does not prepare an annual report for tabling in the Legislative Assembly. Considering that net assets of $9.2 million were being administered on behalf of 478 clients at March 31, 1999, an annual report of the Public Trustee's activities should be prepared and tabled in the Legislative Assembly.

Recommendations

10.18 In accordance with the Public Trustee Act, the advisory committee should provide an annual report to the Lieutenant Governor in Council.

10.19 An annual report of the Public Trustee's activities should be prepared and tabled in the Legislative Assembly.

MANAGEMENT RESPONSE

10.20 We were advised that corrective action is being taken on the points raised.

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Recommendations

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MANAGEMENT RESPONSE

10.20 We were advised that corrective action is being taken on the points raised.

UPDATE ON PREVIOUS RECOMMENDATIONS

11. UPDATE ON PREVIOUS RECOMMENDATIONS

INTRODUCTION

11.1 As part of the audit process, we make a number of recommendations to improve management and administration of government operations and programs. We do not infringe on management's right to select the best course of action to address any problems identified. However, we want to ensure that all recommendations are being addressed by management.

11.2 Each year we request information from departments and agencies on the status of any outstanding audit recommendations. Normally the information is limited to correspondence from the Deputy Minister or CEO of the organization and we do not always further verify or check the information received. However, we do review the responses for reasonableness. In most cases it is more cost-effective to do detailed verification during the next scheduled audit.

11.3 Following is information on the status of recommendations from the special audits and examinations reported in our 1999 Annual Report as well as some outstanding issues from audits prior to 1999.

IMMIGRANT INVESTOR PROGRAM
1999 ANNUAL REPORT

BACKGROUND

11.4 The Immigrant Investor Program was initiated by the Federal government in 1986. Over the life of the program a significant amount of capital has been invested in Prince Edward Island. As of April 1999, the program has been redesigned and a stronger central administration has been implemented by the Federal government.

11.5 In our 1999 Annual Report to the Legislative Assembly we reported on the exposure to the Province as a result of its involvement in the Immigrant Investor Program. We provided information on the use of immigrant investor financing in a number of projects including the potato dehydration plant, a hog farrowing operation, the Hillsborough Bridge Expansion, and a number of projects carried out through the Charlottetown Area Development Corporation. In addition we made several observations on administration of the program regarding loan approvals, and monitoring and compliance.

11.6 Island Investment Development Inc. (IIDI), a provincial Crown corporation, is the manager of the five government sponsored immigrant investor funds. These funds are separately incorporated as subsidiaries of IIDI and are known as Prince Edward Island Government Economic Development Funds (Island Funds) I, II, III, IV, and V. All immigrant investors of Island Fund I have been repaid but loans are still outstanding for Funds II through V.

STATUS OF ISLAND FUNDS

11.7 As of March 31,1999 over $85 million in principal and interest is owed to immigrant investors by Island Funds II through V. In accordance with Program requirements, 70 percent of the funds received from immigrant investors were in turn loaned to a number of investee companies who are required to pay IIDI at the end of the five year term. Approximately 10 percent of funds were paid out in administration and placement fees and approximately 20 percent was invested in marketable securities. **Exhibit 11.1** shows the principal and interest due by each Island Fund as well as the expected sources of capital for repayment.

EXHIBIT 11.1
PROVINCIAL EXPOSURE THROUGH IIDI
MARCH 31, 1999
($ Millions)

	Fund II	Fund III	Fund IV	Fund V	Total
FUNDS PAYABLE					
Principal and interest due to investors at end of five years	$30.80	30.25	$21.53	$3.15	$85.73
FUNDS RECEIVABLE					
Amounts on loan	23.05	20.48	14.10	2.00	59.63
Awaiting investment	-	-	.25	.10	.35
- Total principal	23.05	20.48	14.35	2.10	59.98
- Interest over five years	3.04	3.47	2.86	.42	9.78
Total	26.09	23.95	17.21	2.52	69.76
INVESTMENT ACCOUNT					
Investments	4.00	4.10	4.10	.60	12.80
Earnings, at Mar. 31/99	1.92	.59	.06	-	2.58
	5.92	4.69	4.16	.60	15.38
TOTAL RECEIVABLES AND INVESTMENTS	$32.01	$28.64	$21.37	$3.12	$85.14

11.8 **Exhibit 11.1** indicates a total of $69.8 million in loan principal plus interest is expected to be paid by investee companies to IIDI at the end of the five year term. Repayment dates on these loans range from August 1999 to March 2004. The notes due to immigrant investors amount to $85.7 million including interest. The amount in the investment account totalled just over $15 million at March 31, 1999. The amount received from the investee companies plus the balance in the investment account plus future earnings on these investments will be applied against the outstanding loans.

SALE OF POTATO DEHYDRATION PLANT

11.9 We recently obtained information from the Department of Development on the sale of the potato dehydration plant to an American processing company. Under the terms of the sale the American company has purchased the shares of the company operating the plant, and assumed the indebtedness to IIDI of $16 million. The purchaser also assumed the lease agreements for the plant and the waste treatment facility including the option to purchase for a nominal fee. The agreement respecting the preferred shares of $3 million held by PEI Business Development Inc. (PEIBDI) provides for the waiving of dividends and permits redemption of the shares for a nominal amount upon repayment of the debt owing to the Province. The Sinking Fund Agreement remains intact in which payments are dependent upon profitability of the company. In addition, PEIBDI has provided a loan of $2.5 million at 4 percent for the purchase of additional equipment. The PEI Lending Agency has agreed to provide a loan to the company of $16 million, less the proceeds of the Sinking Fund, to pay out the loan from IIDI when the immigrant investor financing is due.

11.10 We have been advised that the Province has received payment of interest arrears owing on the IIDI debt. In addition the Province has been repaid for product purchased by a subsidiary of PEIBDI.

STATUS OF RECOMMENDATIONS

In the annual report we recommended:

11.11 Periodic information should be available to government and the Legislative Assembly which summarizes the Province's involvement in the Immigrant Investor Program.

11.12 Conditions established in the letter of offer should be followed.

11.8 Exhibit 11.1 indicates a total of $69.8 million in loan principal plus interest is expected to be paid by investee companies to IIDI at the end of the five year term. Repayment dates on these loans range from August 1999 to March 2004. The notes due to immigrant investors amount to $85.7 million including interest. The amount in the investment account totalled just over $15 million at March 31, 1999. The amount received from the investee companies plus the balance in the investment account plus future earnings on these investments will be applied against the outstanding loans.

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11.12 Conditions established in the letter of offer should be followed.

11.13 Where the nature or extent of Provincial investment in development projects is significantly changed, it should be submitted to Executive Council for additional approval.

11.14 A competitive bidding process should be followed, where practical, for construction of major development projects with public funding.

11.15 The Board of Directors of Island Investment Development Inc. should approve a loan policy which outlines the criteria for assessing suitable projects to be financed with immigrant investor loans.

11.16 The loan rates approved for loans to investee companies should be based on an analysis of the expected borrowing costs plus administration fees for each fund.

11.17 Island Investment Development Inc. should comply with all federal regulations under the Immigrant Investor Program.

11.18 The letters of offer, issued by the Executive Director of IIDI to investee companies, should clearly state whether audited financial statements are required.

11.19 Requirements to provide audited financial statements should be enforced.

Department Response

11.20 The Department indicated that although periodic summary information on the Immigrant Investor Program activities is not prepared, information is available upon request. Loan proceeds are released only after the requirements in the letter of offer have been met. The Department also indicated that a sinking fund, under the control of IIDI, is established for each loan, and project accounts are monitored.

11.21 We were advised that competitive bidding practices are reviewed verbally with clients when the terms and conditions of agreements are established; loan criteria have been developed; audited financial statements are a requirement for all projects; and interest rate projections have been prepared and will be presented to the IIDI Board for review.

Our Comments

11.22 We will continue to monitor the outstanding loans under this program.

QUEENS REGION HEALTH - SENIOR SERVICES
1999 ANNUAL REPORT

STATUS OF RECOMMENDATIONS

In our audit report we recommended:

11.23 The major factors considered in the placement of individual applicants should be documented in the applicants' files or in the Placement Committee minutes of meetings.

11.24 Regulations and policies should be updated to reflect current administrative structures and changes in the process for admissions to private and provincial homes.

11.25 Accounts receivable should be recorded and reviewed regularly to ensure all amounts due are collected.

11.26 Bank accounts should be reconciled on a monthly basis. The reasons for differences should be determined and corrections made on a timely basis.

11.27 Copies of bank reconciliations and summary reports should be reviewed by the Region's financial officers on a regular basis.

11.28 Revenues should be transferred to the Region's bank account on a timely basis.

11.29 Interest accrued on fee revenues collected on behalf of the Province should be transferred to the Province.

11.30 Standard procedures currently employed at Beach Grove and Prince Edward Homes relating to estate billings should also be applied to subsidized residents of private nursing homes.

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11.31 Senior Services Division should review the medical supplies billings for subsidized patients in private nursing homes with a view to developing guidelines against which the reasonability of billings can be assessed.

11.32 Senior Services Division should develop a workload measurement tool to be used in assessing staffing needs in the provincial homes.

11.33 The frequency of various safety inspections should be monitored to ensure that standards applied to private nursing homes are met by the Beach Grove and Prince Edward Homes.

11.34 Consideration should be given to having nursing home inspectors conduct periodic reviews of government homes to ensure operations satisfy standards applied to private nursing homes.

Region Response

11.35 The Region indicated that documentation has been implemented for all placements that fall outside of the established criteria. A review of the Welfare Assistance Act and Regulations has recently been conducted with a number of revisions pending. Policies have been signed off by the Deputy Minister of Health and Social Services and are being implemented.

11.36 The Region reported that a computerized accounts receivable module is being installed and will be available first to the acute care sector and then to other sectors within the Health Regions. In addition, the Region is reviewing the need for a computerized system to deal with patient fee receivables at Beach Grove and Prince Edward Homes.

11.37 The Region advised that bank reconciliations are now being performed for Beach Grove and Prince Edward Homes and regional finance staff will review reports and reconciliations on a quarterly basis. The improvement in bank reconciliation preparation has allowed more timely bank transfers. All interest received on patient fee accounts is now transferred to the Province.

11.38 The Region reported that processes and standard formats used for establishing billing for provincial homes have been implemented for subsidized residents of private nursing homes.

11.39 The Region has gathered information on medical supplies billings for subsidized patients in private homes and confirmed that costs appear to be substantially higher for two homes. Upon completion of analysis of data and identification of cost drivers, recommendations will be made to address any discrepancies in costing and/or any inefficiencies in the process. A target completion date of April 2000 has been established.

11.40 The Region indicated that the selection and implementation of a case management system is currently under consideration by the Department. The preferred option will cover most non-acute care programs and include a workload measurement tool.

11.41 The Region reported that inspections are carried out at the discretion of provincial authorities and the Department is now looking at the feasibility of developing policy related to this recommendation.

Our Comments

11.42 We are satisfied that the Region is taking action on the recommendations arising from our audit of Senior Services. We will follow up next year on the actions currently under consideration.

RAIL LANDS DEVELOPMENT
1999 ANNUAL REPORT

STATUS OF RECOMMENDATIONS

In our audit report we recommended:

11.43 The Department of Transportation and Public Works should enter into a management agreement with the Department of Fisheries and Tourism, clearly setting out the responsibilities of both Departments with respect to the rail lands.

11.44 All costs pertaining to the Confederation Trail should be identified, and charged to proper accounts, so that costs can be reported each year.

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11.44 All costs pertaining to the Confederation Trail should be identified, and charged to proper accounts, so that costs can be reported each year.

Department Response

11.45 A management agreement is not yet in place. The Department of Transportation and Public Works advised that this matter will be addressed once the financial requirements for trail maintenance are established and the budgeting needs addressed.

11.46 Neither Transportation and Public Works nor Tourism has an account specifically for Confederation Trail costs. The Department of Transportation and Public Works has advised that this will be dealt with once funding for trail maintenance is provided in the budget of either Department.

Our Comments

11.47 We will continue to follow up on these recommendations.

DRUG COST ASSISTANCE PLAN
1999 ANNUAL REPORT

STATUS OF RECOMMENDATIONS

In our audit report we recommended:

11.48 Before a new agreement is signed, the Department should determine the extent to which their objective of compensating pharmacies for lost dispensing fees is met.

11.49 Vendors contracted to provide support or perform other system functions should be restricted from adding or changing data.

11.50 Staff access to the Claims Adjudication System should be limited based on responsibilities. There should be a segregation of duties for the beneficiary updates and claims transactions. In order to provide accountability, the updated records in master files should be identified with individuals making the changes.

11.51 The Department should ensure the backup copies of beneficiary changes and claims transactions are stored offsite and are updated on an ongoing basis.

11.52 Monitoring and internal audit procedures should be used to compensate for risks associated with on-line claim input and adjustment capabilities of pharmacies.

11.53 The Department should improve the effectiveness of monitoring procedures through the use of database search techniques, review of exception and higher risk situations, and use of summary comparison data to identify areas which may warrant additional monitoring effort.

11.54 Drug names should be included on payment reports and computer displays of claims.

11.55 Methods should be used to readily identify unusual transaction data in payment reports and computer displays of claims.

Department Response

11.56 The Department negotiated a new one year agreement and continued the surcharge on ingredient costs to compensate for the lost dispensing fees.

11.57 Vendors now have access only to information necessary to troubleshoot claims. They are not able to enter or change system information or claims.

11.58 Staff access to the Claims Adjudication System is limited based on the responsibilities of staff using the system. Access is controlled through a combination of user IDs and passwords.

11.59 Daily backup tapes are now stored at a secure off-site location. and internal audit procedures for the areas of on-line claim input and pharmacy adjustments have been implemented.

11.60 A number of reports have been developed using database search techniques. Database reports are also being reviewed manually.

11.61 The system used to view claims now identifies the name of the drug. and methods have been developed to identify unusual transaction data.

Our Comments

11.62 The Department has made good progress correcting the problems noted in our audit.

Department Response

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11.48 Before a new agreement is signed, the Department should determine the extent to which their objective of compensating pharmacies for lost dispensing fees is met.

11.49 Vendors contracted to provide support or perform other system functions should be restricted from adding or changing data.

11.50 Staff access to the Claims Adjudication System should be limited based on responsibilities. There should be a segregation of duties for the beneficiary updates and claims transactions. In order to provide accountability, the updated records in master files should be identified with individuals making the changes.

11.51 The Department should ensure the backup copies of beneficiary changes and claims transactions are stored offsite and are updated on an ongoing basis.

11.52 Monitoring and internal audit procedures should be used to compensate for risks associated with on-line claim input and adjustment capabilities of pharmacies.

11.53 The Department should improve the effectiveness of monitoring procedures through the use of database search techniques, review of exception and higher risk situations, and use of summary comparison data to identify areas which may warrant additional monitoring effort.

11.54 Drug names should be included on payment reports and computer displays of claims.

11.55 Methods should be used to readily identify unusual transaction data in payment reports and computer displays of claims.

Department Response

11.56 The Department negotiated a new one year agreement and continued the surcharge on ingredient costs to compensate for the lost dispensing fees.

11.57 Vendors now have access only to information necessary to troubleshoot claims. They are not able to enter or change system information or claims.

11.58 Staff access to the Claims Adjudication System is limited based on the responsibilities of staff using the system. Access is controlled through a combination of user IDs and passwords.

11.59 Daily backup tapes are now stored at a secure off-site location, and internal audit procedures for the areas of on-line claim input and pharmacy adjustments have been implemented.

11.60 A number of reports have been developed using database search techniques. Database reports are also being reviewed manually.

11.61 The system used to view claims now identifies the name of the drug, and methods have been developed to identify unusual transaction data.

Our Comments

11.62 The Department has made good progress correcting the problems noted in our audit.

UNIVERSITY OF PRINCE EDWARD ISLAND
1999 ANNUAL REPORT

BACKGROUND

11.63 At the request of the Legislative Assembly we conducted a value-for-money audit at the University of Prince Edward Island (UPEI). Our detailed audit report was tabled in the Legislative Assembly on December 16, 1998. In our 1999 Annual Report, we included background information and a summary of recommendations.

11.64 The University provided a detailed response to our audit report in March 1999. In November we received follow-up information on the status of the recommendations arising from the audit.

11.65 The following paragraphs provide summary information which reflects the detailed response and the subsequent follow-up provided by the University.

STATUS OF RECOMMENDATIONS

Governance

In our audit report we recommended:

11.66 The shared governance structure provided for under the University Act should be maintained.

11.67 A more rigorous process should be in place for determining appointments to the Board of Governors by the Lieutenant Governor in Council. Guidelines on the desirable qualifications and attributes of prospective appointed Board members should be developed and input from the Chair of the Board of Governors should be obtained in filling any vacancies.

11.68 Board policies on important governance and management issues should be determined and filed in a Board policy manual for reference and easy access. The Board should approve this policy manual as the current policies in effect. This policy manual should be updated with any new or amended policies approved by the Board.

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11.69 The Policy and Planning Committee should have terms of reference approved by the Board and undertake an active role in assisting the Board on strategic policy and planning issues.

11.70 The Government and Community Relations Committee should have a clearly defined mandate and become active in supporting the Board in establishing linkages with the Government and the public.

11.71 The Board should take a leadership role in promoting improved communication and accountability by the University.

11.72 The Senate should identify the academic priorities for the University. This identification should be clear enough to serve as a basis for discussion on program changes.

11.73 In accordance with the University Act, the President should prepare a formal report annually to the Board of Governors and the Senate. This report should report on the progress and requirements of the University and include any recommendations considered necessary.

11.74 A comprehensive conflict of interest policy should be prepared and approved for Board members, management, faculty and staff. It should include the following:

- definition of a conflict of interest;
- assignment of responsibility for administration of the policy; and
- description of disclosures and reporting required.

11.75 The Government should establish a formal framework for dialogue with the University on strategic planning and long-term budgeting.

11.76 The Provincial Government, in consultation with the University and the public, should determine a long-term plan for higher education for the Province.

11.77 The Provincial Government should negotiate a long-term funding agreement with the University to implement the University's responsibilities under the long-term plan for higher education.

University Response

11.78 The Board of Governors has reviewed the observations and recommendations in our report and made a number of changes related to governance issues. To improve Board effectiveness, the Board identified regular cycles for new members to join the Board and departing members to complete their term. The Board anticipates that establishing a regular cycle for the changeover of Board members will facilitate member orientation and regular Board planning sessions. Criteria have been approved by the Board regarding the appointment of Board members. These will be discussed with government.

11.79 The former Government and Community Relations Committee has been constituted as a Committee of the Whole thus requiring all Board members to advocate and develop linkages on behalf of the Board. The President reports regularly to the Executive Committee on community and government relations issues. In addition, the Policy and Planning Committee has been reviewed and restructured.

11.80 The University reported that all existing policies have been inventoried and are being reviewed. Action is underway to update and revise policies in a number of areas. The University's Policy Project Working Group is developing a comprehensive web-based policy manual.

11.81 There are now regular and continuing discussions between the University and various levels of government. A meeting between Cabinet and the Senior Management Group at the University will be scheduled early in the year 2000. We are advised that best efforts are being made to achieve a long-term funding plan for the University.

Accountability

In our audit report we recommended:

11.82 The University should establish an accountability framework for public accountability reporting. It should include: a mission statement with clear objectives; clearly stated performance

expectations; performance information compared to results expected; and a public accountability report.

11.83 The University Act should be amended to require the University to include performance information in its annual report.

11.84 Performance information in the University's annual report should be subject to periodic audit.

11.85 The University's annual report on performance should be referred, after tabling in the Legislative Assembly, to a Committee of the Legislature to provide an opportunity for the University to explain the report, and Members to deliberate and ask questions of the University regarding the report.

University Response

11.86 The University reported that they have been working on the design of an accountability framework. They are in the final stages of development of a formal annual report on progress and requirements of the University. It will be brought to the University community and submitted to the Minister of Education. The report will include the most important performance indicators relevant in the university context.

Financial Control and Budgeting

In our audit report we recommended:

11.87 Budget information presented to the Board of Governors should include all expected revenues and expenditures.

11.88 A reconciliation which explains the variances between actual expenditures and the budgeted amounts approved by the Board of Governors should be prepared and presented to the Board when the financial statements are presented for approval.

11.89 Departments should provide a summary of budgeted and actual expenditures, with an explanation of the differences, to the Comptrollers Office. These should be summarized and reported to the Board of Governors.

11.77 The Provincial Government should negotiate a long-term funding agreement with the University to implement the University's responsibilities under the long-term plan for higher education.

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11.90 Policies should be developed and approved for the administration of the various Funds.

11.91 Purchasing policies should be formally approved by the Board of Governors.

University Response

11.92 The University reported it is working on revising the format of its budget documents to provide more complete information. A reconciliation of budget and actual expenditures with explanation of variances is now provided to the Board.

11.93 We are advised the University is continuing in its efforts to update and review all policies for inclusion in a web-based policy manual.

Planning

In our audit report we recommended:

11.94 Strategic plans should be formally approved by the Board of Governors and documented in the Board minutes.

11.95 Each year a report should be prepared and presented to the Board of Governors on any changes to the strategic plan and the progress achieved in relation to the strategic issues and goals established in the strategic plan.

11.96 The University should prepare an operational plan that links strategic objectives to the annual budget.

University Response

11.97 A strategic planning document called *UPEI Advanced Education and Research for a New Century* was developed and presented to the Senate for discussion. It is hoped with the endorsement of the Board and the Senate this will set the direction of the University and provide a framework for addressing priorities.

11.98 The University indicated that linkages between the strategic objectives and the annual budget could be made clearer.

Human Resources

In our audit report we recommended:

11.99 Human resource policies should be collected, reviewed, approved, and communicated in conjunction with the development of the University policy project that is currently in process.

11.100 The Human Resources Department should develop guidelines to be used by Deans for hiring faculty.

University Response

11.101 We are advised that Human Resource policies are being addressed by the University Policy Project Working Group and will be reviewed and updated. Guidelines have been developed regarding the hiring of faculty.

Academic Programs

In our audit report we recommended:

11.102 The goals and objectives of the faculties of Arts and Sciences should be documented and approved at an appropriate level. In addition, goals and objectives should be reviewed annually to determine if they are being achieved.

11.103 Self-studies should be completed on a timely basis in accordance with Senate policy.

11.104 In accordance with the Faculty Handbook, a Market Differential Committee should be established to make recommendations on appropriate compensation levels where market differentials are involved. If the Faculty Handbook provisions are deemed to be out of date, revisions should be developed and approved at an appropriate level.

11.105 All faculty reviews should be completed and documented as required in the Faculty Handbook.

11.106 The Dean and Chairs for each Faculty should sign off each faculty review as complete and in accordance with the Faculty Handbook policy.

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11.106 The Dean and Chairs for each Faculty should sign off each faculty review as complete and in accordance with the Faculty Handbook policy.

11.107 Section 7.8 of the Faculty Handbook should be clarified with faculty so that information requested by the Dean or the President is provided.

11.108 Consideration should be given to annual reviews of all faculty members.

11.109 The method for reviewing course evaluations should be improved. The process in the faculties of Arts and Science should ensure all evaluations are reviewed by the Deans.

11.110 The Board of Governors should examine alternatives to the process for selecting Department Chairs.

11.111 The University should document its overall objective on the relative emphasis to be given teaching, research and service. Methodology to do this has been developed within the Faculty of Veterinary Medicine and appropriate methodologies should be developed in the faculties of Arts and Science. In addition, faculty should be held accountable for their activities by comparing activities to expected performance and documenting the results.

11.112 Graduate surveys should be implemented to assist in assessing the appropriateness of programs and courses in the faculties of Arts and Science.

11.113 The faculties of Arts and Science should have a more structured approach to monitoring and evaluating programs and courses.

11.114 We recommend that the University use the methodology provided by the Maritime Provinces Higher Education Commission in the University Costing Study to prepare further analysis on costs. This information should be summarized and used by senior management, the Senate and the Board of Governors as part of the internal decision-making process in determining financial and academic plans.

11.115 Overall, there is a need for a more formalized management reporting system that requires performance information to be provided by each faculty to the President. The President should incorporate aggregated information from these reports in the President's report to the Board of Governors. These reports should form the basis for the annual report of the University to the Legislative Assembly.

University Response

11.116 The University agrees that each school and faculty should make their goals and objectives explicit.

11.117 A Senate committee has begun to revise the policy and process for self studies and reviews and the University will comply with the quality assurance guidelines of the Maritime Provinces Higher Education Commission.

11.118 The University will examine its procedures for review of faculty members in light of the recommendations of the audit. In addition, the University reported it will consider the relative emphasis on teaching, research and service in conjunction with this review. The University will ensure that policy and practice are consistent in relation to market differentials.

11.119 The University indicated that it participates in graduate surveys conducted by MPHEC and receives the PEI data from those surveys.

11.120 The University reported that, while it believes the costing study is useful, it intends to consider it further before taking action due to the substantial cost of implementing the methodology.

11.121 The University intends to implement a more formalized management reporting system in conjunction with the development of an approach to annual reporting by the University.

Research

In our audit report we recommended:

11.122 The University should take steps to address the recommendations in the research study completed in 1997 and the issues pertaining to research in the MPHEC Report.

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In our audit report we recommended:

11.122 The University should take steps to address the recommendations in the research study completed in 1997 and the issues pertaining to research in the MPHEC Report.

11.123 The University should consider establishing further areas of research focus for Main Campus based on current or potential expertise or capacity.

11.124 The search for a Director of Research Development should be completed as soon as possible.

11.125 An operational plan should be developed for the Research Development Office to encourage, promote, and support research within the University.

11.126 The draft Grants and Contracts Handbook should be completed and formally approved.

11.127 The University should take steps to resolve the issue on research overhead and ensure that overhead is charged in accordance with policy on all research contracts.

11.128 Targets should be set for assessing the procedures in place designed to increase the quantity and quality of research carried out by the University Main Campus. These targets should include:

- number of applications to funding agencies;
- number of grants awarded; and
- number of grantsmanship seminars conducted.

11.129 Performance achieved in relation to the targets established should be reported to senior management periodically.

11.130 The University should establish policies on authority and limits for research expenditures funded through discretionary accounts.

11.131 Information on unfunded research activity should be reported annually to the Research Development Office and summarized with existing information on funded research activity. This information should be reported in the Presidents' annual report to the Board of Governors and included in the University's public accountability report.

11.132 In all academic units, expectations related to research should be clearly articulated at the time of the faculty member's review.

University Response

11.133 The University agrees that decisions need to be formalized related to the future direction of research. Once this occurs a search can be conducted for a suitable official to provide leadership in research planning, development and administration. The incumbent will develop an operational plan and targets related to research. Steps have been taken to finalize the Grants and Contracts Handbook and a policy governing overhead costs for research is under development.

11.134 The University agrees that information about all research, including unfunded research, should be systematically collected and reported. Expectations regarding research conducted by faculty members will be considered as part of the examination of the faculty review process.

Enrolment Management

In our audit report we recommended:

11.135 The Enrolment Management Plan should be a priority and be developed as soon as possible. This Plan should set the desired size and composition of the student body; include a recruitment management plan, require performance information on the achievement of recruitment plan objectives, and include retention strategies.

University Response

11.136 A five year enrolment management plan has been completed by the University.

Office of the Registrar

In our audit report we recommended:

11.137 The Office of the Registrar should document the goals of the Office addressing both the administration of academic regulations as well as service delivery expectations.

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11.138 Endowed and special purpose accounts which are inactive should be reviewed with a view to consolidation in order to maximize the number of scholarships awarded as long as the original terms of the endowments are followed.

11.139 A database of all endowed and special purpose accounts should be created and the accounts monitored to ensure available amounts are paid out as required.

University Response

11.140 The University reported that a review has been conducted on all endowed and special purpose funds, including a comprehensive analysis of the terms. The report has been submitted to the Board Finance Committee. As well, the endowed and special purpose accounts are now maintained on a common data base.

Fund Raising

In our audit report we recommended:

11.141 The integrated relationship marketing strategy should be presented to the Senior Management Group and to the Board of Governors for approval.

University Response

11.142 An integrated relationship marketing strategy has been adopted by Senior Management Group as well as the Board of Governors.

Physical Plant

In our audit report we recommended:

11.143 A complete space inventory should be prepared which indicates current usage and space assigned to particular departments.

11.144 Regular reporting of space usage should be implemented in accordance with the Space Committee's terms of reference.

11.145 A space plan should be completed by the Space Committee and approved by the President.

11.146 The administration of room bookings should be reviewed with the intention of reducing the number of duplicate systems and formulating clearly defined policies regarding access to campus facilities. A single database system to manage all room assignments should be considered.

11.147 The decision to use Physical Plant staff on alteration and renovation projects should be based on a more complete evaluation of its affect on normal maintenance activities.

11.148 A work order system should be implemented which accumulates time and costs spent on jobs, and enables monitoring and reporting of results.

11.149 The amount of overtime paid to employees should be more closely monitored to ensure staffing levels are adequate and costs are minimized.

11.150 The Physical Plant costs transferred to Residence and Conference Services should be based on actual labour costs incurred.

11.151 There should be improved communication between Physical Plant staff and users making requests for services.

11.152 The Atlantic Veterinary College should be charged with its actual heating costs.

University Response

11.153 The University agreed with our recommendations on Physical Plant. A complete inventory of space is being prepared as part of the development of a ten-year Space and Capital Plan. The Plan will address requirements for existing space, future expansion, and deferred maintenance.

11.154 Administration of room booking has been centralized in the Department of Physical Plant and Security Services and a database system to manage room assignments is under development.

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11.155 Physical Plant management staff have been reorganized and a new work order system is being implemented. Overtime has been reduced and is now carefully monitored. Physical plant costs transferred to Residence, Food and Conference Services have been rationalized. In addition, heating costs for AVC have been analyzed and will be addressed in the next inter-provincial five-year plan for funding the Atlantic Veterinary College.

Computer Services

In our audit report we recommended:

11.156 Management should improve the process for establishing and changing the scope of projects so that changes are approved by both users and IT support personnel.

11.157 Systems documentation should be updated to preserve knowledge of the systems, thereby allowing effective and continued systems support.

11.158 There should be a comparison of the actual benefits achieved for IT projects, six months to a year after implementation, to the benefits projected in the original business case. Consideration should be given to performing formal post implementation reviews for projects.

University Response

11.159 The University is currently undergoing a review of its approach to and policies in the area of Information Technology. Appropriate methodology for the management of smaller projects has been introduced in the Computer Services Department.

Residence, Food and Conference Services

In our audit report we recommended:

11.160 The business plan for the Residence and Conference Services Section should be completed and approved on a timely basis.

11.161 The process for setting rates for residences and conference services should be clearly defined based on specific objectives.

University Response

11.162 A strategic plan for residence services has been developed and is currently undergoing revision following extensive discussion. The University agreed that rates should be established based on objectives but noted the rates at nearby private sector accommodations as well as rates at competing Maritime universities must be considered.

Athletics and Bookstore

In our audit report we recommended:

11.163 The Department of Athletics, Recreation and Physical Education should review the membership rate structure to reaffirm what degree of subsidization is appropriate for each type of user and how the rates compare to other entities offering similar programs and services. User fees should be set in accordance with realistic financial objectives.

11.164 The various informal operating policies and procedures of the Bookstore should be formalized, documented and approved by management.

11.165 The University should explore options to help minimize the cost of textbooks to students.

University Response

11.166 The University agreed with our recommendations related to the Bookstore but has not provided a written response on our recommendation related to Athletics.

Our Comments

11.167 The University is addressing many of the recommendations arising from our audit. We will follow up on any outstanding recommendations next year.

11.155 Physical Plant management staff have been reorganized and a new work order system is being implemented. Overtime has been reduced and is now carefully monitored. Physical plant costs transferred to Residence, Food and Conference Services have been rationalized. In addition, heating costs for AVC have been analyzed and will be addressed in the next inter-provincial five-year plan for funding the Atlantic Veterinary College.

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Athletics and Bookstore

In our audit report we recommended:

11.163 The Department of Athletics, Recreation and Physical Education should review the membership rate structure to reaffirm what degree of subsidization is appropriate for each type of user and how the rates compare to other entities offering similar programs and services. User fees should be set in accordance with realistic financial objectives.

11.164 The various informal operating policies and procedures of the Bookstore should be formalized, documented and approved by management.

11.165 The University should explore options to help minimize the cost of textbooks to students.

University Response

11.166 The University agreed with our recommendations related to the Bookstore but has not provided a written response on our recommendation related to Athletics.

Our Comments

11.167 The University is addressing many of the recommendations arising from our audit. We will follow up on any outstanding recommendations next year.

QUEENS REGION
HEALTH AND COMMUNITY SERVICES
1998 ANNUAL REPORT

STATUS OF RECOMMENDATIONS

In our audit report we recommended:

11.168 The budget for the Queens Region, included in the Estimates to the Legislative Assembly, should be supported by a financial plan and be implemented by the Region.

11.169 The roles of the Board of Directors of the Region, and the Departmental administration should be clearly defined.

11.170 An accountability framework should be established including a process to clearly define and reach agreement on the results to be achieved by the Queens Region.

11.171 Performance information should be provided periodically to the Ministry compared to the expected results for the Region.

11.172 Regional Management should document a strategic plan for the Region with goals and strategies which are in line with a strategic plan for the Health Care Sector approved by the Ministry.

11.173 The Region should comply with the requirements of the Financial Administration Act and prepare a statement of goals and results achieved.

Region Response

11.174 The Region reported that its budget is established after extensive discussion with the Department of Health and Social Services, where overall budget direction is set for the health system based on government priorities. During the year budgets are monitored and any adjustments are made in consultation with the Department. Detailed budget information is provided to the Department by the Region and is available for presentation in the Budget Estimates at the discretion of Government.

11.175 Government continues to move forward with its commitment to elected Boards with Board membership expanded in 1999 to nine members; two elected and seven appointed. By 2001 there will be five members elected and four appointed. Discussions have occurred with the Department to assure clarity of roles and responsibilities and other methods are also used to provide effective communication such as joint management meetings.

11.176 The Department's Strategic Directions document outlines the overall direction and focus for the health care system. The Department is currently working on the development of performance indicators. A framework for reporting results is being developed by the Region and indicator information is provided to the Minister through monthly meetings with the CEO, Deputy Minister and Department Directors. In addition, the Minister receives quarterly financial forecasts, and minutes of Queens Region Board meetings.

11.177 Queens Region has established five goals from which it has developed a strategic plan in line with the provincial direction. Operational plans have been developed for each division within the Region consistent with the regional strategic plan. A reporting process and schedule have been developed.

Our Comments

11.178 We are satisfied that the Region, in conjunction with the Department is taking action to address the recommendations resulting from our audit.

THE INFRASTRUCTURE PROGRAM
1998 ANNUAL REPORT

STATUS OF RECOMMENDATIONS

11.179 ***In our audit report we recommended:***

- **Decisions on project approvals should be documented in the Management Committee minutes.**
- **Administrative guidelines and policies defining the decision making parameters for program staff should be formally approved by the Management Committee.**
- **More definitive guidelines should be in place to assist staff in assessing project applications and decisions should be supported with sufficient documentation.**

QUEENS REGION
HEALTH AND COMMUNITY SERVICES
1998 ANNUAL REPORT

STATUS OF RECOMMENDATIONS

In our audit report we recommended:

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- Administrative guidelines and policies defining the decision making parameters for program staff should be formally approved by the Management Committee.
- More definitive guidelines should be in place to assist staff in assessing project applications and decisions should be supported with sufficient documentation.

- The content of letters of offer for publicly funded projects should be consistent with Treasury Board Policies for contracts, conditional grants, and funding agreements.
- Grants paid out should be based on supporting invoices and processing procedures should be reviewed and revised to ensure invoices are claimed only once.
- Paid invoices, submitted as support for grant payments, should be applied against the specific projects to which they relate.
- Grant programs which fund expenditures subject to GST should address the issue of any rebates to grant recipients.

Department Response

11.180 The Department advised that the Infrastructure Program ended as of March 31, 1999. They further indicated that when a new Canada-PEI Infrastructure Program is introduced, they will continue to work with the Management Committee on the implementation of the recommendations arising from our audit report.

Our Comments

11.181 We intend to do additional audit work if a new infrastructure program is implemented.

PROVINCIAL TAX REVENUES
1998 ANNUAL REPORT

STATUS OF RECOMMENDATIONS

In our audit report we recommended:

11.182 The Division should:

- carry out periodic audits of oil companies to determine compliance with legislation;
- seek explanations in cases where unusual inventory balances are reported by oil companies; and
- reconcile tax exempt sales and purchases between oil companies.

11.183 The Department should:

- continue to monitor assessed values compared to market values;

- compare assessed values to their targets; and
- take corrective action where necessary.

11.184 Management of the Assessment Section should carry out more monitoring of assessors' work. This should include a combination of: exception reporting; an approval process for policy deviations; and reviews of similar properties to ensure consistency.

11.185 The Assessment Section should:

- periodically review and update rates established for farm assessments;
- request documentation to support the income declaration in bona fide farmer applications;
- subject bona fide farmer properties to a periodic review process to ensure their continued eligibility; and
- ensure the wording of the Real Property Tax Act allows for the collection of tax based on a farm assessment.

11.186 The Division should:

- require tobacco wholesalers to fully complete their monthly tax return; and
- monitor wholesale inventory levels to ensure all taxable product is accounted for.

Department Response

11.187 The Department provided the following information on the status of these issues:

- The Department indicated that some monitoring of information submitted by agents is carried out but due to limited audit resources no field audits have been carried out on gasoline tax. The Department will attempt to allocate audit resources to this area within the next two fiscal years.
- The Property Assessment Services Section has reported that sales ratios of all property types are reviewed on an annual basis and an assessment analyst position has been created.

- **The content of letters of offer for publicly funded projects should be consistent with Treasury Board Policies for contracts, conditional grants, and funding agreements.**
- **Grants paid out should be based on supporting invoices and processing procedures should be reviewed and revised to ensure invoices are claimed only once.**
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1998 ANNUAL REPORT

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- **seek explanations in cases where unusual inventory balances are reported by oil companies; and**
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- **continue to monitor assessed values compared to market values;**

- compare assessed values to their targets; and
- take corrective action where necessary.

11.184 **Management of the Assessment Section should carry out more monitoring of assessors' work. This should include a combination of: exception reporting; an approval process for policy deviations; and reviews of similar properties to ensure consistency.**

11.185 **The Assessment Section should:**

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- **subject bona fide farmer properties to a periodic review process to ensure their continued eligibility; and**
- **ensure the wording of the Real Property Tax Act allows for the collection of tax based on a farm assessment.**

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- The Property Assessment Services Section has reported that sales ratios of all property types are reviewed on an annual basis and an assessment analyst position has been created.

- Existing reports used to monitor assessors' work have been reviewed and policy deviations have been addressed with supervisors but a formal approval process and monitoring system has not been implemented.
- Farm assessment rates have been reviewed but not changed. The Department reported that income verification is now required for all bona fide farm declarations, the Real Property Tax Act has been amended in relation to the collection of tax based on a farm assessment, and those farm properties classified as bona fide marginal are being reviewed on a regular basis.
- Approval has been received for a new position which will result in improved monitoring and inspection of tobacco wholesalers and retailers.

Our Comments

11.188 The Department is addressing the recommendations from our audit.

DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS - 1998 ANNUAL REPORT

STATUS OF RECOMMENDATIONS

In our audit report we recommended:

11.189 Controls should be strengthened to ensure all asphalt chips from highway construction projects are accounted for.

11.190 We reiterate our 1991 recommendation that the Department keep track of basic management information on truck and equipment rentals to facilitate the most cost effective decisions for obtaining these items.

11.191 The Department should comply with Treasury Board's 1993 directive and provide the requested information concerning truck rentals.

11.192 All planned vehicle acquisitions should be included with the annual budget submission to Management Board.

- Existing reports used to monitor assessors' work have been reviewed and policy deviations have been addressed with supervisors but a formal approval process and monitoring system has not been implemented.
- Farm assessment rates have been reviewed but not changed. The Department reported that income verification is now required for all bona fide farm declarations, the Real Property Tax Act has been amended in relation to the collection of tax based on a farm assessment, and those farm properties classified as bona fide marginal are being reviewed on a regular basis.
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11.191 The Department should comply with Treasury Board's 1993 directive and provide the requested information concerning truck rentals.

11.192 All planned vehicle acquisitions should be included with the annual budget submission to Management Board.

Department Response

11.193 Material tickets are issued for asphalt chips shipped from regional stockyards to work sites. The database of shipping information can be reconciled against the database of material usage on work projects. The asphalt chips stored by the Department are recorded in inventory as they are piled.

11.194 Management has undertaken an extensive review of 1998 rental contracts. As a result, there will be further analysis of specific cases to confirm that there are more cost effective solutions. The Department will continue to review the traditional equipment rental practices and work toward improved arrangements where rental costs are excessively high.

11.195 The Department has evaluated alternate forms of renting trucks for the use of crews throughout the day and concluded that the current arrangement provides excellent value.

Our Comments

11.196 We are satisfied that the Department is taking action to address most of the recommendations resulting from our audit.

PUBLIC ACCOUNTS COMMITTEE

12. PUBLIC ACCOUNTS COMMITTEE

ROLE AND MANDATE

12.1 The Standing Committee on Public Accounts is a Committee of the Legislative Assembly. It consists of ten members which cannot include Ministers of the Crown. The Committee is chaired by a member of the Official Opposition. The Public Accounts Committee is an important link in the accountability process. It provides a forum in which members of the Committee, as members of the Legislative Assembly, are given the opportunity to hold the administration accountable.

12.2 The primary function of the Committee is the review of the Auditor General's Annual Report. The Committee holds public meetings and requires the Auditor General and other witnesses to appear and answer questions on matters raised in the Auditor General's Annual Report as well as other issues.

PROCEEDINGS AND RESULTS

12.3 The Committee met extensively during the year to review the observations and issues raised in my 1999 Annual Report. I appeared before the Committee on seven occasions and assisted in their deliberations by providing further information, explanation and clarification where requested. A number of other individuals appeared before the Committee to respond to inquiries arising from the Committee's review. In November 1999, the Committee prepared a report to the Legislature on its proceedings and endorsed the recommendations and observations made in the 1999 Report of the Auditor General.

12.4 The Committee through its deliberations has an important role in contributing to improved accountability and effectiveness in government operations. I look forward to continuing to work with the Committee in fulfilling its mandate.

OFFICE OF THE AUDITOR GENERAL

13. OFFICE OF THE AUDITOR GENERAL

Mission

13.1 The Office of the Auditor General conducts independent audits and examinations that provide objective information, advice, and assurance to the Legislative Assembly. The Office promotes best practices in government operations.

Mandate

13.2 The mandate of the Office is derived from the Audit Act. As a servant of the Legislative Assembly, the Auditor General is independent of government. Under the Act, authority is given to carry out financial statement audits of the Public Accounts as well as any agency of government or Crown controlled or owned corporation.

13.3 The Act also gives the Auditor General a broad mandate to conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purposes and is doing so economically and efficiently in compliance with the applicable statutory requirements.

Guiding Principles

13.4 The following principles are used to guide the Office in carrying out its mission:

- *Serving the Public Interest* - We focus on significant issues to achieve a positive and measurable impact for the benefit of the public. In particular, we promote value for money in the use of funds raised from taxpayers.

- *Commitment to Excellence* - We strive to meet the highest standards of professionalism and integrity. While maintaining our independence, we seek to develop a relationship of respect and trust with those we audit. We are committed to delivering quality reports.

- *Being Cost-Conscious* - We seek to make the best possible use of our resources and to minimize costs without compromising quality or service.

- *Promoting Innovation* - We are committed to learning and growth. We promote the use of innovative thinking and state-of-the-art technology to continuously improve the quality of what we do.

Responsibilities and Functions

13.5 The responsibilities of the Auditor General are set out in the Audit Act. The Auditor General is required to report annually on the results of the audits and examinations conducted by the Office. The work of the Office can be categorized into two types of assignments - financial audits, and special audits and examinations.

13.6 The primary responsibility of the Auditor General is the audit of the Public Accounts of the Province. The Auditor General is also named in legislation as the auditor of a number of Crown agencies. In addition, the Office is responsible for the audit of those Crown agencies that are not subject to financial audit by other auditors. Comments on our audit of the Public Accounts are contained in a separate section of this report.

13.7 The mandate also allows the Auditor General to conduct any audit or examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently and is complying with the applicable statutory provisions. In addition, special examinations may include work on compliance with applicable authorities on a government-wide basis and examinations under special request where deemed appropriate.

13.8 In carrying out its work, the Office performs an important service to the Legislative Assembly. In some cases where government reports information about its performance we comment on its completeness and accuracy and thus provide credibility and add value to that information. In other circumstances we assess government's performance directly and report our findings to the Legislative Assembly and the public. Flowing from these assessments are recommendations and advice which can assist government in identifying opportunities for improvement in the management and control of public funds.

OPERATING PHILOSOPHY

Independence

13.9 As the independent auditor of government, the Auditor General works solely for the Legislative Assembly, not for government. The Audit Act establishes the legal framework for an independent audit office. Some of the key components in building that independence include: the existence of a Legislative Audit Committee which ensures the Office's resources and operations are determined independent from government, the authority to carry out the audits and examinations which the Auditor General deems necessary, the right of access to records and information necessary to perform audit functions, the power to request and receive any information or explanations required, and the requirement to report annually to the Legislative Assembly.

13.10 In addition, to these important components, the independence of the Office is supported by an office code of conduct which includes, among other things, policy and guidance on integrity, impartiality, and potential conflict of interest situations.

Planning Our Work

13.11 Each year an audit work plan is developed consistent with the audit priorities established by the Office. This plan includes a number of financial statement audits as well as special audits and examinations. Financial statement audits are completed annually.

13.12 Special audits and examinations of government departments and Crown agencies are carried out on a cyclical basis. These audits can vary in scope from the entire organization to a particular division or program. Occasionally an audit may be carried out on a particular function on a government-wide basis.

13.13 Various factors are considered in establishing priorities for special audits and examinations. These include; materiality of the expenditures, results of previous audits, the date of the last audit, and the impact on the public. Other factors considered in planning each audit include; our audit mandate, expected resources required to complete the audit, the quality of the financial and management controls in place for the entity, complexity of the operations, and possible matters of significance that may arise from the audit.

Professional Standards

13.14 Generally accepted accounting principles for government are established through the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA). These recommendations are directed at the public sector and deal with a number of accounting issues.

13.15 Our audits are conducted in accordance with generally accepted auditing standards. These standards relate to the professional qualifications of auditors, minimum examination requirements, and reporting responsibilities. We rely on generally accepted accounting principles for the public sector as well as other recommendations of the CICA contained in the CICA Handbook.

13.16 The Office is subject to a periodic practice inspection carried out by the Institute of Chartered Accountants of Prince Edward Island. This process is designed to protect the public interest by ensuring the Office meets the standards required of the profession.

PERSONNEL, ADMINISTRATION AND AFFILIATIONS

Organization

13.17 The Office currently consists of the Auditor General, three audit directors, ten auditors and two administrative staff. Due to budgetary restraint three audit positions will remain vacant for the fiscal year 2000-2001. We continue to strive with limited staff to provide audit coverage of significant areas of government on a cyclical basis.

13.18 The Office budget for the year ended March 31, 2000 was $1,179,100, with over 80 percent allocated to salary costs.

13.19 Under the Audit Act the Legislative Audit Committee, a standing Committee of the Legislative Assembly, is responsible to the Legislature for the administration of the Office of the Auditor General. The Committee consists of the Speaker of the Legislative Assembly, who is Chairperson; the Leader of the Opposition; and the Provincial Treasurer.

Professional Affiliations

13.20 The Office attempts to remain current in all aspects of legislative and other professional audit practices. We also maintain a close association with a number of professional organizations and share knowledge and experiences with a view to contributing to the development of legislative audit practices. Some of the key affiliations include the following:

- The Canadian Conference of Legislative Auditors - This annual conference brings together legislative auditors from the federal government and the provinces and provides an opportunity for information exchange and discussion.
- The CCAF - The Office has been a member and supporter of the CCAF since its inception in 1980. It is a Canadian research and education Foundation dedicated to building knowledge for meaningful accountability and effective governance, management, and audit.
- The Public Sector Accounting Board - The Office provides input and cooperates with the Board in its efforts to improve and harmonize public sector accounting practices. The Board conducts research and issues recommendations on public sector accounting issues.
- The Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Prince Edward Island - The Office maintains an important professional relationship with these organizations and provides input and receives information on developments in the profession through membership on various provincial and national committees.

OBJECTIVES AND ACCOMPLISHMENTS

13.21 The Office has established two broad goals, one of which is:

> ***To promote improved accountability for, and management of, public funds.***

To this end we have developed a number of supporting objectives. The following paragraphs provide information on each of these objectives and our accomplishments during the year.

(I) To prepare an Annual Report for the Legislative Assembly as required under the Audit Act, on the results of the audits that have been carried out.

13.22 The Annual Report is a summary of the most significant issues and recommendations resulting from our work. It is our expectation that the Annual Report presented each year will act as a vehicle for positive change in the management and performance of the public sector. The deliberations and discussions on the Report that occur within the Legislative Assembly and by the Standing Committee on Public Accounts provides the impetus to bring about the improvements recommended in the Report.

13.23 Our 1999 Annual Report was presented to the Legislative Assembly in April 1999. I appeared before the Public Accounts Committee on seven occasions and provided support to their deliberations through participation in the discussions and provision of further explanation and information as requested.

(II) To express opinions on the financial statements of the Public Accounts of the Province and other Crown agencies subject to audit.

13.24 I am pleased to report that we were able to issue an unqualified opinion on the Public Accounts again this year. We continue to work closely with the Office of the Comptroller in improving the financial statement presentation and disclosure.

13.25 In addition to the Public Accounts, we conduct a number of audits of Crown Corporations, Pension and Trust Funds, and other Agencies.

(III) To perform selective special audits and examinations to determine whether departments and agencies are being managed with due regard for economy and efficiency and are in compliance with applicable statutory provisions.

(IV) To prepare reports for departments and agencies including observations and recommendations as a result of special audits and examinations.

13.26 The amount of special audit and examination work that we are able to carry out is a function of the amount of staff resources we have available after having carried out the financial statement audits that we are required by legislation to complete. This year we were directed by the Legislative Assembly to carry out a value-for-money audit of Holland College. Summary information is reported elsewhere in this report on that audit as well as information on a number of other special audits and examinations completed during the past year.

(V) To perform other investigations as may be required from time to time.

13.27 Occasionally we are asked to investigate potential weaknesses in control or to follow up on specific observations from our reports. It has been our practice to follow up on outstanding recommendations and provide information in our Annual Report on the status of implementation of the recommendations arising from our audits.

13.28 Our second broad goal is:

> ***To continuously update our knowledge and skills within our field of practice and to work to the highest standard of our profession.***

The supporting objectives and related accomplishments follow.

(I) To maintain technical competence in an evolving accounting and auditing environment.

(II) To remain aware of and provide input to the development of public sector accounting standards.

(III) To build leadership within the Office by providing professional development and training opportunities for staff.

13.29 Our Office maintains an affiliation with the Canadian Institute of Chartered Accountants which helps us to keep abreast of emerging accounting and auditing issues. Standards are promulgated by the Public Sector Accounting Board. We regularly participate in this process by providing comments during the discussion stages of the development of government accounting standards. In addition we maintain professional affiliations with the Canadian Conference of Legislative Auditors and the CCAF. This participation allows us to share knowledge and experience.

13.30 All audit staff within the Office have professional accounting designations. We ensure experienced and technically competent staff are available through providing a range of in-house and external training and professional development opportunities. We have held in-house sessions on value-for-money and financial auditing matters in the past year. In addition, individual staff members have attended various professional conferences, seminars and meetings.

(IV) To assist government departments and agencies on financial and managerial matters as resources permit.

13.31 Our audit reports are designed to identify observations and make constructive recommendations to assist management in addressing the issues identified. In addition, we are periodically requested to provide assistance on various matters.

SCHEDULES

SCHEDULE "A"
PAGE 1 OF 2

OPERATING FUND APPROPRIATIONS

ORDINARY	**ORIGINAL APPROPRIATION ACT 1998/99**	**GOVERNMENT REORGANIZATION**	**RECAST ORIGINAL APPROPRIATION**	**SPECIAL WARRANTS**	**TRANSFERS**	**TOTAL BUDGET**	**EXPENDITURES 1998/99**	**UNDER EXPENDITURES**	**EXPENDITURES 1997/98**
AGRICULTURE AND FORESTRY	$ 18,462,400	$ -	$ 18,462,400	$ 814,200	$ 162,400	$ 19,439,000	$ 19,180,052	$ 258,948	$ 18,591,457
PEI GRAIN ELEVATORS CORPORATION	105,000	-	105,000	-	-	105,000	105,000	-	147,700
EDUCATION	171,391,600	-	171,391,600	11,384,400	1,871,300	184,647,300	184,639,824	476	167,894,947
EMPLOYMENT DEVELOPMENT AGENCY	3,739,000	-	3,739,000	900,000	5,700	4,644,700	4,621,981	22,719	4,177,680
FISHERIES AND ENVIRONMENT	10,057,900	(10,057,900)	-	-	-	-	-	-	10,191,979
FISHERIES AND TOURISM	-	11,317,400	11,317,400	1,009,900	93,200	12,420,500	12,126,918	293,582	-
TECHNOLOGY AND ENVIRONMENT	-	11,616,500	11,616,500	2,183,400	103,800	13,903,700	13,826,402	77,298	-
EXECUTIVE COUNCIL	2,190,500	-	2,190,500	23,100	20,600	2,234,200	2,093,567	140,633	1,931,185
PROVINCIAL TREASURY	15,476,100	(4,967,700)	10,508,400	-	156,800	10,665,200	10,608,896	56,304	16,517,795
EMPLOYEE BENEFITS	8,782,200	-	8,782,200	1,916,100	-	10,698,300	10,698,254	46	14,703,012
ECONOMIC DEVELOPMENT AND TOURISM	9,997,400	(9,997,400)	-	-	-	-	-	-	13,230,520
DEVELOPMENT	-	7,227,400	7,227,400	1,347,400	34,600	8,609,400	8,523,442	85,958	-
ENTERPRISE PEI	23,748,000	(6,182,600)	17,565,400	500,000	68,700	18,134,100	18,129,154	4,946	25,691,011
PEI LENDING AGENCY INC	-	692,400	692,400	-	12,900	705,300	705,300	-	-
PEI ENERGY CORPORATION	68,200	-	68,200	-	-	68,200	64,172	4,028	106,887
COMMUNITY AFFAIRS AND ATTORNEY GENERAL	33,301,700	(33,301,700)	-	-	-	-	-	-	22,953,146
COMMUNITY SERVICES AND ATTORNEY GENERAL	-	31,952,000	31,952,000	222,700	319,500	32,494,200	32,458,882	35,318	-

SCHEDULE "A"
PAGE 2 OF 2

OPERATING FUND APPROPRIATIONS

ORDINARY	ORIGINAL APPROPRIATION ACT 1998/99	GOVERNMENT REORGANIZATION	RECAST ORIGINAL APPROPRIATION	SPECIAL WARRANTS	TRANSFERS	TOTAL BUDGET	EXPENDITURES 1998/99	UNDER EXPENDITURES	EXPENDITURES 1997/98
ISLAND REGULATORY AND APPEALS COMMISSION	$ 1,000,000	$ -	$ 1,000,000	$ -	$ 20,300	$ 1,020,300	$ 1,020,236	$ 64	$ 743,750
LEGISLATIVE ASSEMBLY	2,585,700	-	2,585,700	112,400	19,200	2,717,300	2,686,723	30,577	2,629,642
HEALTH AND SOCIAL SERVICES	280,119,300	-	280,119,300	14,880,700	4,274,300	299,274,300	299,274,096	204	296,077,538
TRANSPORTATION AND PUBLIC WORKS	58,052,300	-	58,052,300	3,695,100	489,300	62,236,700	62,100,219	136,481	46,451,959
PEI CROWN BUILDING CORPORATION	- -	-	-	-	-	-	-	312,775	
AUDITOR GENERAL	1,130,600	-	1,130,600	-	16,800	1,147,400	1,076,822	70,578	1,001,020
GENERAL GOVERNMENT	9,023,700	-	9,023,700	27,704,300	(7,721,200)	29,006,800	27,609,232	1,397,568	6,293,914
COUNCIL OF MARITIME PREMIERS	187,500	-	187,500	-	-	187,500	185,000	2,500	175,883
INTEREST CHARGES ON DEBT	102,191,000	-	102,191,000	-	-	102,191,000	101,374,915	816,085	102,290,509
PUBLIC SERVICE COMMISSION	1,409,600	1,701,600	3,111,200	407,800	49,700	3,568,700	3,118,607	450,093	949,389
INTERMINISTERIAL WOMEN'S SECRETARIAT	277,100	-	277,100	9,300	2,100	288,500	285,520	2,980	260,021
TOTAL ORDINARY	$753,296,800	$ -	$753,296,800	$67,110,800	$ -	$820,407,600	$816,513,214	$3,894,386	$753,323,719
CAPITAL									
TRANSPORTATION AND PUBLIC WORKS	$ 28,943,700	$ -	$ 28,943,700	$ 6,703,300	$ -	$ 35,647,000	$ 35,071,179	$ 575,821	$ 50,681,093
GRAND TOTAL	$782,240,500	$ -	$782,240,500	$73,814,100	$ -	$856,054,600	$851,584,393	$4,470,207	$804,004,812

NOTE: Special Warrants totalling $5,123,400 although submitted to the Legislative Assembly, have not yet received formal approval by means of a Supplementary Appropriation Act.

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	AGRICULTURE AND FORESTRY		
	DEPARTMENT MANAGEMENT		
EC1999-73	Professional and Contract Services		$ 24,200
	AGRICULTURE		
	Agriculture Resource Team		
EC1999-73	Grants		790,000
	To fund additional expenditures in the Agriculture Industry Transition Program ($100,000) fully offset by revenue from the federal government under the Canada/PEI Atlantic Freight Transition Program, and to cover the cost of Government's initiatives to support the hog industry through the Swine Quality Improvement Program ($690,000).		
	Total		$814,200
	EDUCATION		
	CULTURE, HERITAGE, RECREATION AND SPORTS		
	General		
EC1999-179	Grants		$ 150,000
	ELEMENTARY AND SECONDARY GRANTS		
	Grants to School Boards		
EC1999-179	Salaries	$6,295,900	
	Grants	2,117,700	
EC1999-337	Salaries	2,120,800	10,534,400
	Special Warrant EC1999-337 provides additional funding required to cover costs of the Teachers' Workforce Renewal Program, partially offset by sequestration of $900,000 originally budgeted within the department in 1999-2000.		
	HIGHER EDUCATION AND TRAINING		
	Post Secondary Grants		
EC1999-179	Grants		700,000
	Total		$11,384,400
	Special Warrant EC1999-179 covers costs and/or liabilities pertaining to: technology in education, school board deficits, Teachers' Workforce Renewal Program, Transportation Management Services Project, payroll accruals, school bus purchases, Holland College and UPEI, Irish Settlers Millennium Project and PEI Council of the Arts.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS			
	EMPLOYMENT DEVELOPMENT AGENCY			
	JOB CREATION AND PLACEMENT			
	Special Projects			
EC1998-471	Grants		$300,000	
EC1998-609	Grants		450,000	
EC1999-32	Grants		150,000	$900,000
	Additional funding required to meet employment demands across the Province.			
	FISHERIES AND TOURISM			
	TOURISM PEI - DEVELOPMENT			
	Parks West			
EC1998-562	Salaries		$ 59,300	
	Parks East			
EC1998-562	Salaries		44,000	
	Product Development			
EC1999-532	Salaries		2,400	
	Parks Management			
EC1998-562	Materials, Supplies and Services		6,700	$ 112,400
	TOURISM PEI - MARKETING			
EC1999-532	Salaries			11,500
	DEPARTMENT MANAGEMENT			
	Administration			
EC1998-707	Administration	$ 8,000		
	Equipment	17,000		
	Materials, Supplies and Services	5,300		
	Professional and Contract Services	10,500		
	Salaries	60,200		
	Travel and Training	12,600	113,600	
	Research			
EC1999-532	Salaries		4,900	118,500

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS			
	GENERAL ADMINISTRATION			
	Corporate Services			
EC1998-707	Administration	$10,000		
	Equipment	25,000		
	Materials, Supplies and Services	10,000		
	Salaries	86,600		
EC1999-532	Salaries	16,500		
EC1998-707	Travel and Training	3,000	$151,100	
	CEO's Office			
EC1999-532	Salaries		1,400	$ 152,500
	FISHERIES AND AQUACULTURE			
	Division Management			
EC1999-490	Grant			615,000
	To fund the Provincial share of the Fisheries Early Retirement Program.			
	Total			$1,009,900
	TECHNOLOGY AND ENVIRONMENT			
	DEPARTMENT MANAGEMENT			
EC1998-713	Professional and Contract Services		$ 30,000	
	Travel and Training		16,700	$ 46,700
	ENVIRONMENTAL PROTECTION			
	Provincial Waste Management			
EC1998-713	Professional and Contract Services		375,000	
EC1999-185	Professional and Contract Services		183,700	558,700
	WATER RESOURCES			
	Administration			
EC1998-713	Salaries		20,900	
	Rivers and Estuaries			
EC1998-713	Materials, Supplies and Services		1,400	
	Environmental Services Lab			
EC1998-713	Materials, Supplies and Services		13,800	
	Shellfish Program			
EC1998-713	Equipment		5,000	41,100
	Funds required for the delivery of water related programs fully offset by federal revenue.			

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS			
	FISH AND WILDLIFE			
	Administration			
EC1998-713	Professional and Contract Services	$8,000		
	Salaries	2,500	$10,500	
	Wetland Management			
EC1998-713	Professional and Contract Services		19,800	$ 30,300
	To cover costs associated with the various fish and wildlife projects fully offset by revenue from the Canadian Wildlife Service and Ducks Unlimited.			
	PLANNING AND ADMINISTRATION			
EC1998-713	Equipment		7,000	
	Professional and Contract Services		12,500	
	Salaries		32,400	51,900
	FRANCOPHONE AFFAIRS			
EC1998-713	Professional and Contract Services		30,000	
	Grants		40,000	70,000
	To provide funding for the Sommet de la Francophonie initiative offset by revenue of $30,000 from the federal government.			
	INVESTIGATION AND ENFORCEMENT			
	Planning and Administration			
EC1998-713	Equipment		4,000	
	Materials, Supplies and Services		2,000	
	Salaries		30,000	
	Travel and Training		2,500	38,500
	Funding required for the delivery of enforcement programs under federal and provincial jurisdiction offset 100 percent by revenue from outside sources.			
	CORPORATE SERVICES			
EC1998-713	Salaries			11,000
	TECHNOLOGY PEI			
	Community Access Program			
EC1998-713	Administration	26,000		
	Materials, Supplies & Services	6,000		
	Professional and Contract Services	30,000		
	Salaries	48,900		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS			
EC1998-713	Travel and Training	$ 19,500		
	Grant	671,900		
EC1999-154	Grant	220,000		
EC1999-185	Grant	46,000	$1,068,300	
	Funding required for the administration of the Community Access Program offset by federal revenues of $798,300.			
	Administration			
EC1998-713	Professional and Contract Services		150,000	$1,218,300
	TECHNOLOGY SUPPORT			
EC1999-135	Equipment		10,000	
	Professional and Contract Services		38,080	
	Salaries		64,820	
	Travel and Training		4,000	116,900
	Total			$2,183,400
	EXECUTIVE COUNCIL			
	Executive Council Office			
EC1998-706	Salaries			$ 23,100
	EMPLOYEE BENEFITS			
	Medical-Life Benefits			
EC1998-704	Professional and Contract Services			$100,000
	Government Pension Contribution			
EC1998-704	Salaries			242,000
	Retirement Benefits			
EC1998-704	Salaries		$ 79,400	
EC1999-604	Salaries		1,494,700	1,574,100
	Special Warrant EC1999-604 provides additional funding to cover the 1998-99 accrual adjustment for retirement pay, vacation leave and workers compensation benefits.			
	Total			$1,916,100

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	DEVELOPMENT		
	DEPARTMENTAL MANAGEMENT		
	Cooperation Agreements		
EC1998-703	Grants		$1,328,700
	To cover over-expenditures in the Federal/Provincial Cooperation Agreement on Regional Economic Development offset by revenue of $478,700 under the terms of this Agreement.		
	REGIONAL SERVICES		
	Summerside Access PEI		
EC1999-178	Salaries		18,700
	Additional funding to cover over-expenditures offset 100 percent by revenue from the federal government under the Federal-Provincial Agreement on the Promotion of Official Languages.		
	Total		$1,347,400
	ENTERPRISE PEI		
	DEVELOPMENT		
	Small Business Support		
EC1998-705	Grants		$500,000
	COMMUNITY SERVICES AND ATTORNEY GENERAL		
	LEGAL AND JUDICIAL SERVICES		
	Sheriff's Office		
EC1999-177	Salaries	$96,600	
	RCMP		
EC1999-177	Professional and Contract Services	55,000	$151,600
	CONSUMER, CORPORATE AND INSURANCE		
	Consumer Services		
EC1999-177	Administration	20,200	
	Equipment	33,900	54,100
	To cover costs associated with the implementation of the Federal Government Gun Legislation Program offset 100 percent by federal revenue.		

ORDER-IN-COUNCIL	**LIST OF SPECIAL WARRANTS**			
	LABOUR AND INDUSTRIAL RELATIONS			
	Administration			
EC1999-177	Professional and Contract Services			$ 17,000
	Total			$222,700
	LEGISLATIVE ASSEMBLY			
	LEGISLATIVE SERVICES			
EC1998-711	Equipment		$11,700	
	Salaries		23,800	
EC1999-183	Salaries		57,400	
EC1998-711	Travel and Training		2,000	
EC1999-183	Grants - Office of the Third Party		15,000	$109,900
	ELECTIONS			
EC1998-711	Professional and Contract Services			2,500
	Total			$112,400
	HEALTH AND SOCIAL SERVICES			
	CHIEF HEALTH OFFICER			
	General Office			
EC1998-709	Materials, Supplies and Services			$105,000
	ACUTE AND CONTINUING CARE			
	Acute Care			
EC1998-709	Materials, Supplies and Services		$ 122,800	
	Grants - Canadian Blood Agency		1,900,000	2,022,800
	HEALTH PROMOTION AND PROTECTION			
	Choice and Opportunity			
EC1998-709	Administration	$ 21,500		
	Materials, Supplies, and Services	15,500		
	Professional and Contract Services	1,000		
	Salaries	269,700		
	Travel and Training	9,800		
	Grant - Choice and Opportunity Program	330,000		
	Grant - PEI Association for Community Living	289,000		
	Grant - Canadian Association for Community Living	63,500	1,000,000	

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS			
	Reproductive Care			
EC1998-709	Administration	$ 2,500		
	Equipment	6,400		
	Materials, Supplies and Services	1,200		
	Professional and Contract Services	47,700		
	Salaries	36,100		
	Travel	2,000	$95,900	$1,095,900
	Additional expenditures are offset by federal revenue of $1,000,000 under the terms of the Choice and Opportunity Program and $95,900 from the Indoor Air Quality/Health of Infants Study.			
	REGIONAL SERVICES			
	In-Province Acute Care Hospitals			
EC1998-709	Grant - Western Hospital	127,200		
	Grant - O'Leary Community Hospital	159,000		
	Grant - Stewart Memorial Hospital	52,400		
	Grant - Prince County Hospital	700,800		
	Grant - Queen Elizabeth Hospital	2,316,800		
EC1999-182	Grant - Queen Elizabeth Hospital	1,163,200		
EC1998-709	Grant - Kings County Memorial Hospital	353,800		
	Grant - Souris Hospital	274,500	5,147,700	
	Regional Services			
EC1998-709	Grant		5,238,400	10,386,100
	MEDICAL SERVICES			
EC1999-182	Salaries - In-Province Physician Fees			772,100
	FINANCE, ADMINISTRATION AND HEALTH INFORMATICS			
	Financial Services			
EC1999-182	Grant - Capital Equipment			498,800
	Total			$14,880,700
	TRANSPORTATION AND PUBLIC WORKS			
	SUMMER MAINTENANCE			
	Western Region			
EC1999-186	Materials, Supplies and Services		$ 49,900	
	Central Region			
EC1999-186	Materials, Supplies and Services		606,500	
	Eastern Region			
EC1999-186	Materials, Supplies and Services		146,800	$803,200

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS			
	WINTER MAINTENANCE			
	Western Region			
EC1999-186	Materials, Supplies and Services	$ 72,000		
	Professional and Contract Services	249,900		
	Salaries	51,900	$373,800	
	Central Region			
EC1999-186	Materials, Supplies and Services	175,000		
	Salaries	200,100	375,100	
	Eastern Region			
EC1999-186	Materials, Supplies and Services	174,000		
	Professional and Contract Services	25,000		
	Salaries	69,800	268,800	$1,017,700
	MECHANICAL BRANCH			
	Charlottetown Garage - Indirect			
EC1999-186	Equipment		98,800	
	Operators - Central Region			
EC1999-186	Materials, Supplies and Services	965,000		
	Salaries	197,200		
	Travel and Training	27,600	1,189,800	1,288,600
	To cover costs associated with the Toronto Snow Cleanup offset 100 percent by revenue of $1,189,800 from the City of Toronto.			
	TRAFFIC OPERATIONS			
	Central Region			
EC1999-186	Materials, Supplies and Services			150,000
	To cover costs of signs for the 911 System offset 100% by revenue from Island Tel.			
	MAINTENANCE ADMINISTRATION			
	Slemon Park			
EC1999-186	Grant			70,000
	ZONE OPERATIONS			
	Western Region			
EC1999-186	Salaries		101,600	
	Central Region			
EC1999-186	Salaries		185,400	

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	Eastern Region		
EC1999-186	Salaries	$ 78,600	$ 365,600
	Total		$3,695,100
	GENERAL GOVERNMENT		
EC1998-708	Salaries	$ 914,400	
EC1999-180	Salaries	2,289,900	$3,204,300
	To cover salary negotiations throughout government.		
	MUNICIPAL GRANTS		
	Community Urban Services Agreement		
EC1999-180	Grant		1,000,000
	PROGRAM GRANTS		
EC1999-181	Grant		23,500,000
	Additional funding for the establishment of the Special Projects Fund.		
	Total		$27,704,300
	PUBLIC SERVICE COMMISSION		
	STAFF DEVELOPMENT		
	Learning Centre		
EC1998-472	Administration	$ 3,500	
	Materials, Supplies and Services	500	
	Salaries	22,800	
EC1999-423	Salaries	4,000	
EC1998-472	Travel and Training	1,000	$31,800
	Special Warrant EC1998-472 provides funds for the delivery of French Language Training and is fully offset by $27,800 from the Public Service Commission of Canada.		
	Staffing		
EC1998-712	Professional and Contract Services	350,000	
EC1999-423	Salaries	1,000	351,000
	Special Warrant EC1998-712 covers costs of implementing a PeopleSoft Human Resource Management System.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	Language Training		
EC1999-184	Administration	$ 2,800	
	Salaries	21,000	$ 23,800

Additional funding required to cover the cost of increased instructional hours under the French Language Program offset by $23,800 from the federal government under the terms of the Federal-Provincial Agreement on the Promotion of Official Languages.

	Occupational Health and Safety		
EC1999-423	Salaries		1,200
	Total		$407,800

INTERMINISTERIAL WOMEN'S SECRETARIAT

EC1998-710	Professional and Contract Services	$6,000	
	Travel and Training	3,300	$9,300

TRANSPORTATION AND PUBLIC WORKS - CAPITAL

	HIGHWAYS		
EC1998-714	Atlantic Freight Transition Program		$5,530,700
	BUILDINGS		
EC1998-714	Bridgetown Highway Depot	$117,600	
	O'Leary Community Hospital	105,000	
	Provincial Addiction Facility	100,000	
EC1999-491	Land Purchases	850,000	1,172,600
	Total		$6,703,300

Special Warrant EC1998-714 is partially offset by revenue of $5,370,000 from the federal government under the terms of the Atlantic Freight Rate Assistance Program and $272,600 from Capital Works.

Special Warrant EC1999-491 is partially offset by revenue in the amount of $425,000 from the federal government.